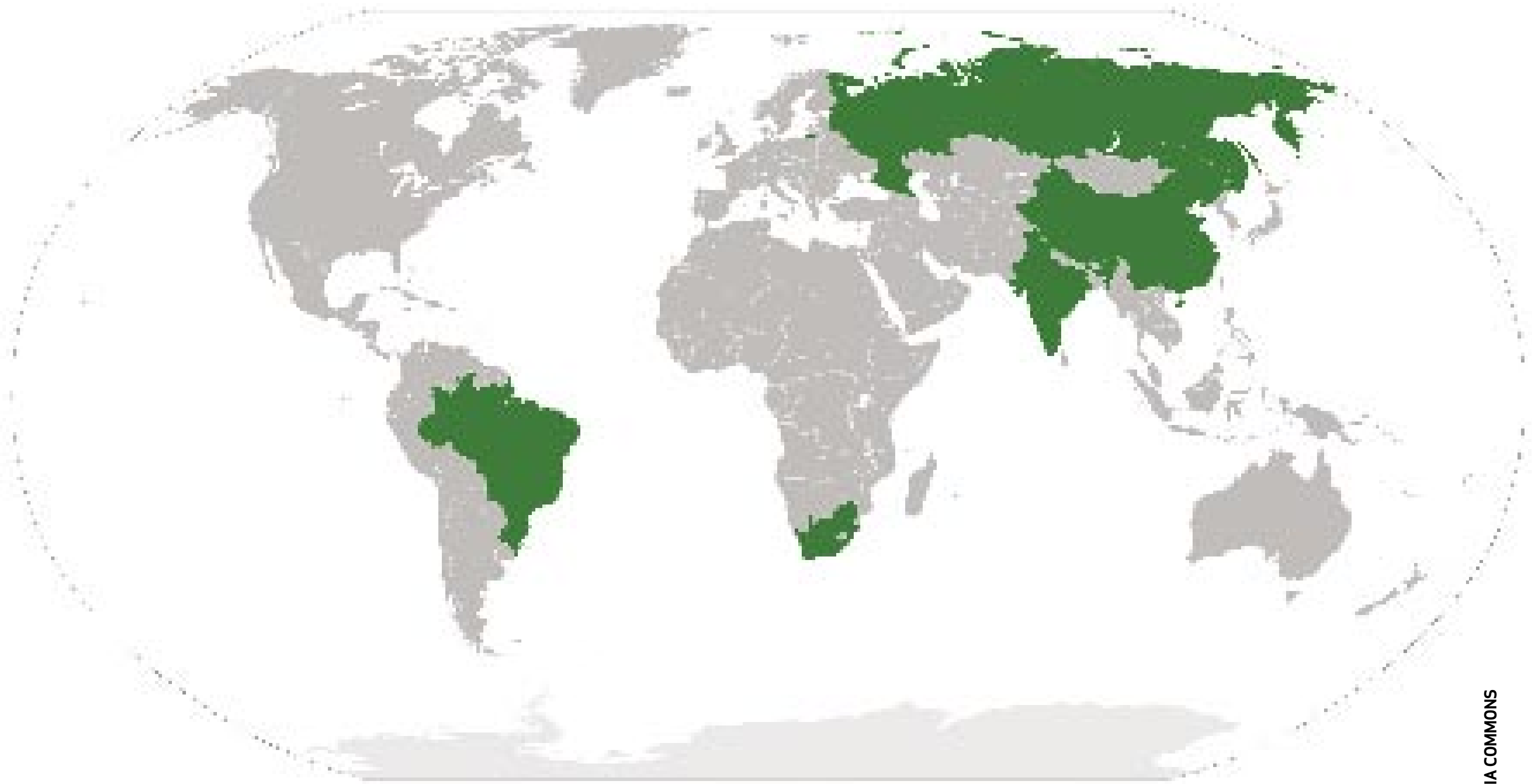
JOINING THE BRICS CLUB

Membership of BRICS poses some serious questions about South Africa's ability to compete on a global stage. **Katherine Graham** investigates.



WIKIMEDIA COMMONS

Although originally formed because of the economic prowess of its members, the BRICS cluster – consisting of Brazil, Russia, India, China and South Africa – has since emerged as a geopolitical force through high-level meetings, summits and various agreements.

DELOITTE

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In April 2011, South Africa was formally inducted into BRICS, an acronym first used by Goldman Sachs chairman Jim O'Neill in 2001 to describe the group of emerging countries that would dominate the global economic landscape by 2050. Covering more than a quarter of the world's land surface and having more than 40 percent of its population, the BRICS are defined by their dynamism and fast-paced growth.

From 2000 to 2009, for example, China, India and Russia had annual GDP growth of above 5 percent, while South Africa averaged 3.6 percent and Brazil 3.3 percent. Although originally grouped together because of their economic prowess, they have since emerged as a geopolitical force through high-level meetings, summits and various agreements.

Added to this accolade was South Africa's inclusion in another bloc, the so-called CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa). *The Economist*, which coined the term, believes that investor interest in BRICS is starting to wane and that the CIVETS are next in line to achieve emerging market superpower status.

WHAT DOES IT MEAN?

'In itself, being part of BRICS or any grouping does not carry any substantial meaning,' says Xhanti Payi, economist at Stanlib Asset Management. 'What will be important are the strategic relationships we can develop with these countries with regards to industry, trade and investment.'

Adenaan Hardien, chief economist at Cadiz Asset Management, points to the size of South Africa's economy. 'South Africa is tiny compared to other BRICS and more in line with the CIVETS,' he says. Brazil's share of the world GDP total, based on Purchasing Power Parity in September 2011, amounted to 2.9 percent, India's 5.5 percent, China's 13.6 percent and South Africa's 0.7 percent, says the International

Monetary Fund (IMF) *World Economic Outlook*. Adenaan continues: 'The inclusion of South Africa in both these groupings provides potential in a number of different ways, including additional avenues to influence global policy and potential access to capital and markets. But how to quantify all this into rands is the difficulty.'

Anushuya Gounden, partner and head of the Africa desk for Deloitte, concurs. 'The opportunity to attract foreign direct investment [FDI] by association with the members of BRICS and CIVETS is significant and it remains to be seen how this opportunity will be leveraged,' she says. 'This is also a serious responsibility as South Africa is seen as a gateway to Africa, which represents over a billion people in 54 different countries.'

> 'The benefit of inclusion would be much greater if we were able to successfully achieve closer regional integration.'

BALANCE OF PAYMENTS

The fact that South Africa has been included with other BRICS is similarly reflected in its balance of payments. 'According to the dti [Department of Trade and Industry], there is a growing share of BRICS in South Africa's total trade,' says Gounden. This is led by China, which overtook the United States in 2010 as the country's largest trading partner. 'Exports to China rose from R40.2 billion in 2005 to R142.6 billion in 2010,' she says. 'In the same period, exports to the EU declined from 36 percent of the total to 28 percent.'

The association also has the potential to make South Africa more alluring to foreign investors, especially in terms of greenfield investments. Says Adcorp economist and labour analyst Loane Sharp, 'South Africa's economic growth is the lowest of these countries, but a combination of development backlogs, strong private infrastructure, market-oriented policies and sound regulation is likely to raise our growth rates and attractiveness as a destination for FDI.'

'Our manufacturing sector has serious challenges in terms of competitiveness,' states Hardien. 'To the extent that our inclusion grants us greater access to developing markets, it is helpful. But I suspect that the benefit would be much greater if we were able to successfully achieve closer regional integration.' Payi believes South Africa's scorecard is mixed. 'We are transparent in terms of government finances and management, with low debt levels. But in terms of manufacturing we are quite weak, particularly in terms of labour-cost competitiveness and productivity.'

Adenaan Hardien points out that South Africa's economy is relatively tiny when compared to other nations in the BRICS cluster.

Xhanti Payi says that the strategic relationships South Africa can develop with regards to industry, trade and investment are important.

Gounden points to the praise South Africa has received for its well-developed capital markets and sound regulations, but adds, 'The percentage of high-school graduates moving into tertiary education is an area where South Africa ranks lower among this group of emerging economies.'

'The country's export potential has not yet been properly tapped,' emphasises Sharp. 'The manufacturing sector has been in decline for the past three decades. Labour productivity remains a key obstacle to export competitiveness, with much of South Africa's manufacturing capacity involving automation as an alternative to labour.'

> 'Government should create an enabling environment for businesses to be profitable, which will attract the investment necessary for growth.'

STRUCTURAL CONSTRAINTS

Aside from the obvious culprits like poverty and joblessness (currently at around 25 percent), the economy faces other structural constraints. 'South Africa needs much higher levels of growth, both to compete against our peers and to make serious inroads into our key socio-economic challenges,' asserts Hardien.

Monetary policy is an area in which some commentators feel South Africa could be bolder. 'Tight monetary policy fails to let the economy stretch its legs from a growth perspective,' says Sharp. 'This is a pronounced weakness.'

According to a July 2011 World Bank report on South Africa entitled *Focus on Savings, Investment and Inclusive Growth*, there are four impediments to economic growth: weak industrial competition, poor skills development, which prevents firms from expanding their businesses, contentious labour relations and a low savings rate. South Africa's savings rate of 15 percent of GDP in 2007 is dismal compared to India's 34 percent and China's 54 percent.

The report states that there are 'no quick fixes' to jumpstart the virtuous cycle of faster capital accumulation, creation of jobs, and technological advancement. 'The quest for inclusive growth will require, above all, a significantly different mindset,' it says. The World Bank proposes a dual strategy – one inward and the other outward. 'A big push is needed to better integrate the advanced economy and the less-developed economy,' says the report. 'Faster growth will have to come from the less-developed economy, which has the potential to take off in the same way that other successful emerging market economies have.' This would include more public infrastructure spending and improving the technical skills of young people.

GLOBAL INTEGRATION

The second push involves effective integration into the global economy to unleash South Africa's latent comparative advantages, the report says, particularly its two endowments in natural resources and unemployed labour. 'A clear, consistent and predictable strategy for attracting foreign investment will be important in this regard,' it states. 'Factory Southern Africa can underpin South Africa's competitiveness in global markets, based on nimble "win-win" regional production supply chains.'

But economists like Sharp believe the government could be doing more. 'Ultimately business profitability drives economic growth,' he says. 'Businesses obtaining higher returns can use their retained income to invest, stimulating economic performance further. Some of our official growth plans do not take this into account enough. 'Regulation in education, healthcare, media, mining and other sectors sometimes has an anti-business or business-sceptic flavour. Government should create an enabling environment for businesses to be profitable, which will attract the investment necessary for growth.'

Joining BRICS has other implications, says Payi, like trying to correct the large trade deficit between South Africa and China. 'South Africa has lost a lot of manufacturing to China,' he comments. 'There is now opportunity to negotiate with China on issues like labour practices, so South Africa can compete on a fair basis. Leadership and diplomacy will be necessary, and we will have a lot to do internally to compete, such as increasing productivity gains and resolving relations between labour and capital.'