# JUSTIFYING SOUTH AFRICA'S INCLUSION AND MEMBERSHIP IN THE BRICS FAMILY OF NATIONS

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## Abstract

BRIC as the group was originally known before the inclusion of South Africa was formed as an alternative to the G20 and G8 groups which were viewed by these countries Brazil, Russia, India and China as being dominated by western powers. The term BRIC was actually coined by a Goldman Sachs analyst who had been working on a research paper dealing with these four countries. This paper attempts to deal with answering the question whether it was justified that South Africa was included as a member of the BRICS (Brazil, Russia, India, China, South Africa) family of nations given that it is much smaller than its partners within the BRICS family and, a recent entry into independent Africa. The paper is not all encompassing but makes certain salient observations. By the same token it does not pretend to capture every salient nuance of this debate. It however does clarify some vexing issues as concerns South Africa's acceptance as a member of the BRICS family of nations.

Key Words: Membership, BRICS (Brazil, Russia, India, China, South Africa), Reforms, Macroeconomic, Economic Growth, Balance of Payments, Employment, Emerging Markets, Price Stability, Inflation, Industry.

## Introduction

According to Vegter, www.mg.co.za/ four –big- brics-and-a-little-one/ [Accessed: 06/10/2013] it was not until 2006 that the original four countries met to discuss ways of improving economic, financial and trade cooperation amongst themselves. One of the underlying reasons for the formation of BRIC was not only the economic power of these four countries but also the 2008 banking crisis which had spill over effects worldwide. Key discussion points during the formation were how to institute reforms on the international financial system, how to make the IMF more responsive to the needs of developing countries, the emerging loss of faith in the US dollar as the worlds reserve currency and the groups collective political vision of a future in which developing countries play a more substantial role in world affairs.

During 2009, South Africa lobbied for entry into BRIC, with China actively supporting South Africa's inclusion. One of the reasons for the inclusion of South Africa is that BRIC sees itself as a voice for developing nations and needed an African voice in the group. Also with South Africa serving as a gateway to the rest of Africa for investment and development; it was viewed as a politically correct move. Hence the new acronym BRICS was coined after South Africa's inclusion into the BRICS family of nations From the outset It has to be understood that South Africa after the demise of apartheid was a new entrant to real global politics and was and is considered by many African leaders and the African continent as a minion and therefore, should not have been included ahead of countries like Nigeria and Ghana due to historical reasons as a member of the BRICS family of nations. On the other hand, South Africa has a well developed economy, many natural resources, a large mining and manufacturing industry, is well endowed agriculturally, possesses an outstanding transport network, and a mature communication and banking sectors, amidst a host of other superb facilities that hold it in good stead to have been included within BRICS. In spite of overt criticism from various African quarters and African countries, South Africa's inclusion was welcomed by India, China, Brazil and Russia.

**1.1 Macroeconomic analysis of whether South Africa's entry to BRICS is justified.**

Since China played an important role in South Africa's entry into BRICS a macroeconomic analysis between China and South Africa will be undertaken. In order to achieve this; factors in macroeconomics such as economic growth, employment, price stability, balance of payments and equitable distribution of income will be looked at between the two countries. A comparison with other BRICS countries is not undertaken in this discussion and analysis, but a few issues with regards emerging markets is discussed in terms of their relevance to the discussion.

**1.1.1 Economic Growth**

**Definition of economic growth:**

Economic growth is measured by the increase in a country's gross domestic product. It can be defined as an annual increase in total production or income in the economy and, production and income must be measured in real terms that are adjusted for the effects of inflation, and population growth. GDP – GNI (Gross national Income) = net income payments to the rest of the world (MANCOSA, Economics Study Guide, 2013)

**China**

The Chinese economy has achieved an impressive growth record that dwarfs the other BRICS countries by comparison. The Chinese economy averaged 10 percent growth in the last decade and although the global economy is slowing down the country still experiences growth of over 8 percent... A key driver of this growth is China's consumption of natural resources to fuel its energy and manufacturing needs. According to Tapula www.the tradebeat.com/ [Accessed: 06/10/2013], the China–South Africa relationship has grown significantly since the early 1990s. It is imperative to examine how South Africa has benefited from this relationship. South Africa is the leading producer of platinum and manganese. South Africa and China signed a Comprehensive Strategic Partnership Agreement in 2010 that prioritised working towards a more balanced trade profile between the two countries, in particular by encouraging trade in manufactured value-added products. South Africa also possesses a number minerals and precious metals, such as iron ore, diamonds, gold and it is the only country in Africa to invest in China. In 2008, South Africa's exports stood at approximately US$ 3.5 billion. According to the Department of Trade and Industry (DTI), South Africa's exports to China reached an all-time high of R85 billion in 2011, an increase of 45 per cent over 2010. It is important to note that China's mining investments in South Africa are noticeably different from investments in other African countries. Chinese companies have been establishing joint ventures with South African mining companies that are profitable and stable, so as to ensure a long-term supply of raw materials to the Chinese market. From the above data it is evident that China's economic growth in some measures depends on a successful trade relationship with South Africa and vice versa.

**South Africa**

South Africa is a relatively small country with a population of just 50.6 million and GDP of around $555.1 billion as compared to China which has a population of 1.35 Billion and GDP of $7.32 trillion. According to Naidoo www.mg.co.za [Accessed: 06/10/2013] South

Africa's economic growth is relatively small with 3.6 percent forecasted for 2013 and 4.2 percent for 2014, China on the other hand grows at between 7- 10 percent.

However as mentioned above South Africa is important to China in terms of being a supplier of key raw materials that are used in the Chinese economy because China has investments in the South African banking sector, mining, transport and renewable energy sectors according to www.fairobserver.com [Accessed: 06/10/2013]. The Industrial Commercial Bank of China has just invested $4.2 billion, a 20 percent stake in South Africa's Standard Bank.

**1.1.2 Employment**

**China**

According to Mittner www.bdlive.co.za [Accessed: 06/10/2013] China's challenge is that its growth has become too expensive. For every dollar of growth in the country, debt of $4-$5 is required. China is expected to become Africa's dominant trading partner by 2018, thereby replacing the US and euro zone countries. However, the Chinese economy's bias towards cheap manufacturing and exports is changing. It is estimated that 18-million Chinese jobs have been exported to lower wage countries such as Vietnam and the Philippines. Productions costs in China have become greater than average productivity gains. African countries are expected not only to benefit from greater trading links with China, but could also gain from lower wage manufacturing enterprises established in African countries. Only 10-million Africans are estimated to be working in factories at present. If 10percent of the jobs exported from China came to Africa, Africans working in factories could double over time. According to the China Labour Bulletin, www.clb.org.hk [Accessed: 09/10/2013] the Chinese focus, as a developing economy is to move employment from the primary sector to the secondary and tertiary industries, with 2.6percent increase in the amount of people working in the tertiary industries, since 2012.

**South Africa**

Official unemployment rates in South Africa place unemployment levels close to 26percent, according to Stats SA. In the South African population only 26 per cent of working adults are formally employed, and 43 per cent of households depend on some form of social grant (Calvin and Coetzee, 2010) as cited by Legadima, L (2012, CH2, 14), the social grants are thus draining the economy as a limited number of people in the formal economy subsidise the majority of unskilled labour. This clearly points to a huge structural problem in South Africa where two-thirds (68 per cent) of the economically active population is employed in the formal economy/sector while a third is employed in the informal economy and by private households (Calvin and Coetzee, 2010) as cited by Legadima, L (2012, CH2, 14). Therefore a key macroeconomic goal of South Africa is to reduce unemployment, however although China has played a key role in helping South Africa gain membership to BRICS, cheap Chinese imports have accounted for the majority of local South African industries shutting down, particularly the clothing industry that has been unable to compete with the Chinese clothing industry.

**1.1.3 Price Stability**

Inflation is a rise in the price of goods and services; it is measured as an annual increase in price. A simple explanation is that inflation is the demand for goods and services is greater than the amount of goods available, thus raising the price of goods and services. Price stability is therefore a major concern of most economies, and inflation targeting is practiced by most central banks, inflation targeting is the aim of keeping inflation within a certain band.

**China**

According to Global Times, www.globaltimes.cn [Accessed: 09/10/2013] China aims to stabilise prices in its monetary policy and strike a balance between economic growth and inflation control. NB: The Phillips curve shows that there is an inverse relationship between controlling inflation and economic growth that is for example a trade off in controlling inflation is reduced economic growth. The Chinese economy due to a global recession is slowing down and the central bank is moving cautiously to loosen its monetary policy, by reducing interest rates and the reserve requirement for lenders, analysts therefore predict that China's CPI [consumer price index] will pick up gradually.

**South Africa**

According to the South African Reserve Bank, ww.resbank.co.za, [Accessed: 09/10/2013] South Africa introduced inflation targeting in February 2000, inflation targeting is the monetary framework in which the central bank announces an inflation target and implements policy to achieve this. The South African Reserve Bank policy is therefore that monetary policy cannot contribute directly to economic growth and employment creation, but that it can be used to create a stable financial environment that is an important precondition for economic development. According to the Reserve Bank its inflation target band or range is 3-6percent, as stated in regards to China there is debate as to how much inflation an economy can tolerate and also whether it is necessary for South Africa to have such a low inflation band which comes at the cost of slowing an economy that is in need of growth.

**1.1.4 Balance of Payments stability**

Balance of payments is divided into a current account which records the flow of income and trade and the capital account which records the flow of financial assets and liabilities. Source: www.simontaylorblog.com [Accessed: 09/10/2013].

**China**

According to Simon Taylor, China has a current account surplus, and uses currency manipulation to keep its currency value low, economists estimate that left to an open market the Chinese currency will appreciate by 20 – 30 percent and that recently due to the global economic slowdown, China has been using its current account surplus to keep the economy growing, however if the country's trade surplus keeps shrinking because of weak demand for its products then this could result in capital flowing out of China and its net balance could become negative.

**South Africa**

According to a report conducted by the South African Treasury www.treasury.gov.za. [Accessed: 10/10/2013] a large trade deficit and high net transfers have widened the current account deficit to 6.1percent of the economy; the deficit is a source of vulnerability.

The financial account is in a surplus with demand for government bonds and other investment inflows, South Africa needs to attract an inflow of global savings of R703 Billion to finance the current account deficit, and it also needs to improve investor confidence and its investment climate.

**1.1.5 Equitable Distribution of income**

**China**

A nationwide survey according to Orlik, T and Cheng,S www.blogs.wsj.com [Accessed: 10/10/2013] only 25percent of China's household contributed just 3.9 percent to total income while 25percent of its top earners contributed 59percent, this gives China a Gini coefficient of 0.49, to explain a Gini co- efficient of 1 means perfect inequality and zero is perfect equality which means that the lower the figure the better the distribution of income in the economy. China's Gini coefficient dropped from 0.51percent to 0.49percent in 2010 and the reason for this was the rise in rural incomes which gave better income distribution. High inequality of income leads to social unrest and leads to economic imbalances. China's income distribution and unemployment rate of 9.2percent as per the household survey is better than that of other emerging economies and therefore there are few signs of social unrest.

**South Africa**

With South Africa's rising unemployment and widening income inequality, there are more violent strikes and social unrest, with the most recent strike being that of petrol attendants and the disastrous Lonmin unrest which claimed the lives of miners and was the first incident of state force against civilians since the apartheid era. The distribution of income in South Africa is highly uneven and getting worse over time. The outcome of 2005/2006 Income and Expenditure Survey showed that 20 per cent of households (in terms of income) earned 72 per cent of total household income. The top 40 per cent earned 87 per cent of total household income and the remaining 60 per cent earned 13 per cent (Calvin and Coetzee, 2010). In 2008 the Gini Coefficient was 0.68 (Calvin and Coetzee, 2010) as cited by Legadima, L (2012, CH2, 14). As stated above South Africa has higher income inequality than China and reducing this inequality is a key macro-economic objective, whereby one of the tools being used to address this issue is black economic empowerment.

**11. 6 The Gini Coefficient and Inequality**

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**11.7 Some Other Issues for Consideration: Emerging Markets and BRICS**

According to Chandra et al (2013: 23) "emerging markets risk is shattering and investors in these markets are becoming more discerning about where they put their money, shying and staying away from countries such as Brazil, India, Indonesia, Turkey and South Africa." Behind this discrimination is a new found focus on current account deficits and structural weaknesses and the cooling demand in China. This is a break from the last four years, when emerging markets mainly moved in tandem, seen as a blanket buy or sell, with little regard to individual circumstances. Such a mindset was epitomised by the popularity of the Bric acronym coined for Brazil, Russia, India and China to reflect their potential as future economic powerhouses. Investors by virtue of natural inclination will seek and choose emerging markets that are best positioned as opposed as to how choice was made in the past. Chandra et al (2013: 23) state that "Mexico, the Czech Republic and South Korea are among the attractive countries because they are less reliant on foreign finance and took advantage of Fed stimulus to strengthen their economies.

The question is simple to differentiate between good and bad emerging markets. They further added that, the theme of differentiation is gaining ground as the IMF warns. This is exemplified by the Indonesian rupiah that has fallen 11 percent against the dollar and the Indian rupee has declined 12 percent, with the Turkish lira dropping 9 percent and Brazilian real losing 8 percent. By contrast the Mexican peso lost 5 percent, the South Korean won has risen 3.8 percent and the Czech koruna has climbed 3.5 percent. The worst might not be over if the past is any guide. The Brazilian real lost 51 percent in 2001 and 2002, the Indonesian rupiah plunged 86 percent in 1997 to 1998 and India's rupee fell 42 percent from 1990 to 1992. In 2000 and 2001 the Turkish lira declined 68 percent and the South African rand depreciated 52 percent." Many emerging markets used up their defences fighting the global economic crisis in 2008 onwards and while Mexico was doing the right thing, Brazil were returning to its bad habits and Turkey denies it has a problem." In the case of South Africa, escalating debt and deficits if not checked could hamper its progress within BRICS. Brazil has suffered a slump in the real after relying on credit – led consumption, which has failed to boost productivity and returned its current account to a deficit of about 3 percent of GDP. Indonesia is hampered by inflation close to a four – year high and a record current account shortfall. India is held back by cooling growth, elevated inflation, inadequate infrastructure, and distorted regulations for a protracted period. Emerging markets are facing enormous economic pressures and South Africa, Brazil, India partly and Russia are also in trouble as BRICS countries and therefore the consolidation of the BRICS partnership will be affected until there is an upswing in the world economy. Belt tightening by countries within BRICS is required if they are to address "Third World" development issues and bolster economic growth in these economies. China is likely to overtake the US as an importer of oil according to Dyomkin (2013: 1) Russia has to stake its claim in China. This cooperation within BRICS can assist in many ways and South Africa's inclusion is therefore justified.

### 11. 8 Gaffe of Continental Proportions

The President of South Africa is now a liability to the South African nation, to the continent of Africa and to world politics. His indiscretions are too numerous and this does not augur well for the country and could become a great embarrassment to the BRICS relationship and family. His indiscretions like entering the Central African Republic (CAR) without parliamentary permission, the building of his Nkandla Estate at the cost of over R200 million, the controversy that he is embroiled in with regards the spy tapes and a host of other discretions and the most recent statement on Malawi as concerns Africans and roads is a gaffe of monumental proportions. The gaffe was not just a breach of diplomatic protocol. It was a public insult to an ally, and beyond that to the entire continent. The real problem was that the South African President fundamentally contradicted South Africa's foreign policy and Africa is supposed to be the focus of that policy. Other African countries have long suspected that it is not really true. Seeing South Africa's attention being increasingly focussed elsewhere, particularly on the BRICS, they have worried that South Africa has grown too grand for the continent.

In relationship to the above Fabricius (2013: 12) states that "sensitive to these3 perceptions, South Africa has tried to present its membership of BRICS, or the G20 or its deepening relations with the developing world, as being almost as much about helping Africa as helping itself. This was especially noticeable at this year's BRICS summit in Durban when President Zuma invited several African leaders to meet the five BRICS leaders, mainly to hear about the infrastructure projects they wanted financing for. Such efforts now look condescending." But even beyond foreign policy, President Zuma's remark gave the lie to what is supposed to be the deep and fundamental philosophy of Pan – Africanism underpinning the African National Congress (ANC) , which is always swift to rebuke other critics of the continent as Afropessimists and the like.

In the past, the South African, ANC led government has been reluctant to push for democracy on the continent, fearing it will come across as hegemonic, as superior. Now that the rest of the continent already knows how South Africa feels in respect to its superiority to the rest of Africa. This played itself out in the African Union (AU) much to the dissatisfaction of a number of African leaders, when a South African was elected as the Commissioner (Chairperson) of the African Union, on the basis of a certain amount of South African superiority and arrogance. Arrogantly it stated that the larger African countries should not compete for this top AU position.

This is of significance on the basis that it can have repercussions within the BRICS family of nations, particularly from the perspective when BRICS countries would want to penetrate African development opportunities and development priorities within the priorities defined by

African governments. It can lead to great antagonism against South Africa. The time has arrived for the other BRICS countries to home in South Africa's president from making costly blunders and tarnishing the reputation of BRICS. But for South Africa and for the BRICS family of nations, the real concern about President Zuma's remark should be the complacency it revealed because he made it just a few days after the Ibrahim Foundation had once again ranked South Africa only fifth in Africa for governance. Which means in some important ways, we could benefit from thinking like Africans and therefore the gaffe although unpleasant for South Africa, does not really alter South Africa's stature of being included in the BRICS family of nations? South Africa has to display humbleness and humility if it is desirous to play a significant and pivotal role in "Third World" and particularly African development, by gaining the respect and unbrindled support of the continental leadership, by using its membership of BRICS in the interests of all of Africa.

**Conclusion**

To conclude on this question, the issue of whether South Africa's inclusion into the BRIC'S group is justified, is simple, although from the above data it can be seen that South Africa has major economic problems that need to be overcome; the fact is that the country has a sophisticated and safe banking system, relatively good infra- structure and plays a key role on the African continent through its involvement in SADC and the African Union. Also, South Africa is investing further in its infrastructure and is currently upgrading its ports and container capacity, with projects such Dube trade port and other initiatives. South Africa can offer the other countries in BRICS access to the African continent and South Africa also regularly speaks about the interests of other African countries at the various BRICS summits.

South Africa's role therefore in BRICS can be viewed as a constructive one whereby it can facilitate and bring the interests of other African countries to the BRICS group. Its inclusion into BRICS must also be approached by itself with the greatest amounts of humility and it must display the requisite leadership, in order to secure both so – called "Third World" and African development. Its inclusion within BRICS is a move in the correct direction.

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