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Boosting South Africa's Economic Relations with the BRICS

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Introduction

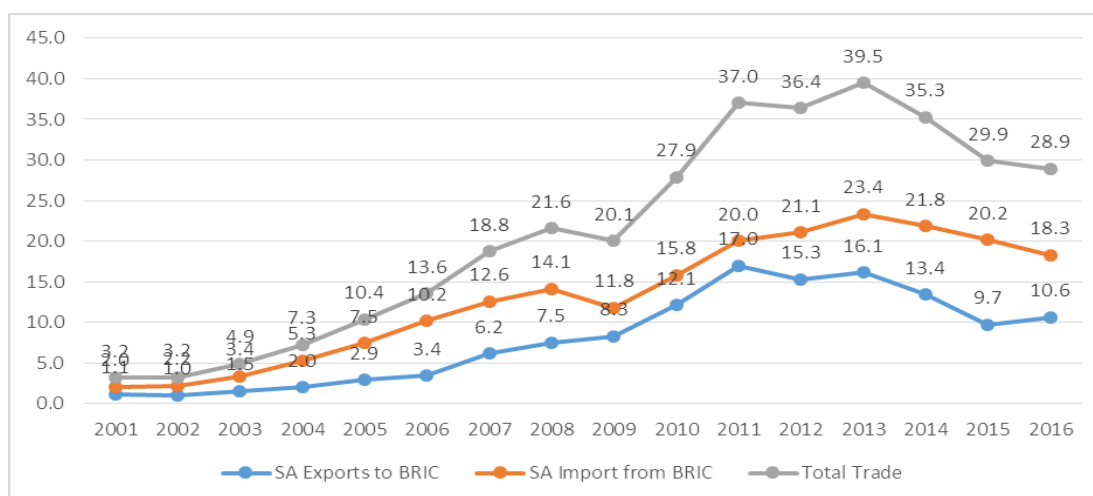
Cyril Prinsloo is a Researcher at the South African Institute of International Affairs. His main portfolios include infrastructure financing in African countries, their engagement in global economic fora and their interaction with strategic global partners and groupings.

Global Insight aims to provide members of the policy community with concise but trenchant analyses of topical issues. Comments and suggestions are invited

South Africa has made concerted efforts in the past two decades to promote economic growth and address its triple domestic economic challenges of unemployment, inequality and poverty. Facilitating greater trade, investment and industrialisation is a key part of this strategy. Over this period, South Africa's economic relations with its BRIC (Brazil, Russia, India and China) counterparts has featured prominently, particularly given the phenomenal trade growth experienced with these countries since 2000. The experience has not been solely positive for South Africa as significant structural challenges remain in the trading relationship. South Africa should look to build on the now well established political platform of the BRICS to promote better economic relations with its members, which could assist in addressing urgent domestic socio-economic challenges.

South Africa's total trade with its BRIC counterparts has increased from \$3.1 billion in 2001 to \$28.9 billion in 2016, down from \$39 billion at its highest point in 2013. While exports experienced a brief decline from 2013 onwards, latest trade data again shows an increase in exports from South Africa to these partners (see Figure 1), driven particularly by exports of raw materials, manufactured goods and chemicals to China. This is largely as a result of increased demand from China, whose global imports were 25.2% higher in January 2017 than the previous year¹ and the recovery of commodity prices, 'which has resulted in an upswing in mining output' according to President Zuma in his latest State of the Nation Address.²

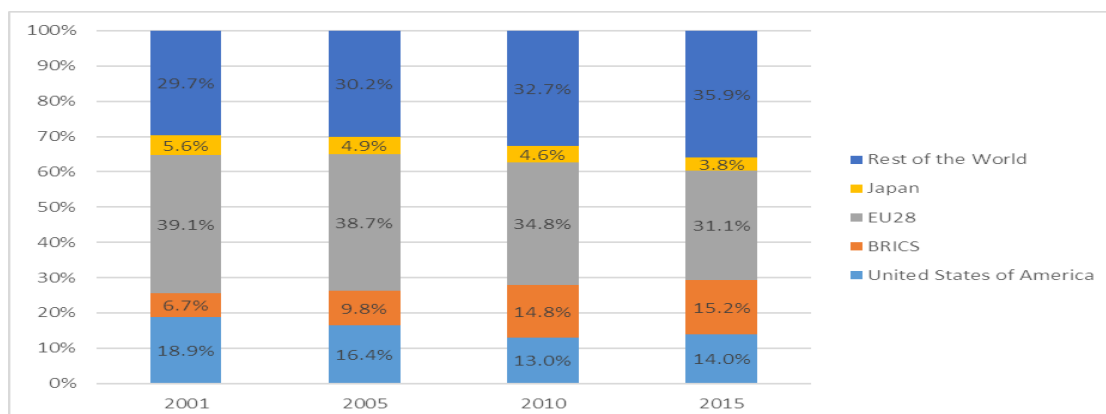
Figure 1 - South Africa - BRICS Trade (\$ billion)



Source - UN Comtrade Database, accessed 25 January 2017, <https://comtrade.un.org/>

The phenomenal growth of trade with the BRICS has allowed South Africa to diversify its export markets beyond its traditional partners in Europe (EU) and the United States (US). This has been especially important in the post-global financial crisis period where the slow recovery of these partners have resulted in lower demand; and it will remain important as the US is seemingly adopting a more trade-protectionist stance. Diversification of economic partners is of growing significance for South Africa as the BRICS increase their share of the global import market vis-à-vis traditional partners. As highlighted in Figure 2 below, the BRICS imported 15.2% of the world's goods in 2015, compared to a mere 6.7% in 2001. Although China accounts for the largest portion of this market growth, increasing its share of the global import market from 3.9% in 2001 to 10.2% in 2015, the size of India's share has grown over the same period from 0.8% to 2.4%; Russia's from 0.7% to 1.1%, Brazil's from 0.9% to 1% and South Africa from 0.4% to 0.5%.

Figure 2 - Share of Global Import Market - Select Countries/Markets

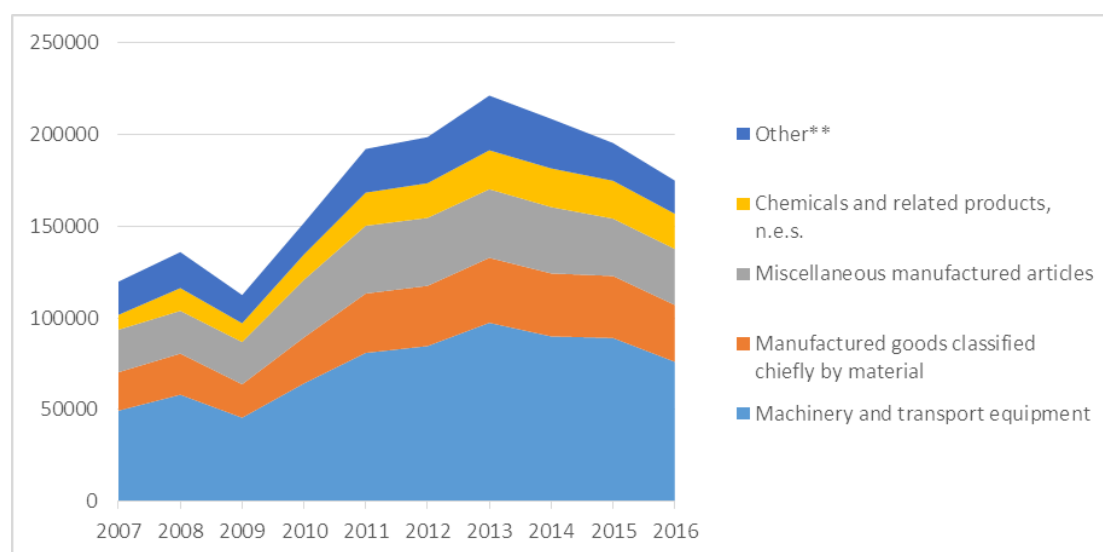


Source - ITC Trademap Database, accessed 25 February 2017, <http://www.trademap.org>

Addressing the quality of trade and investment with BRICS partners

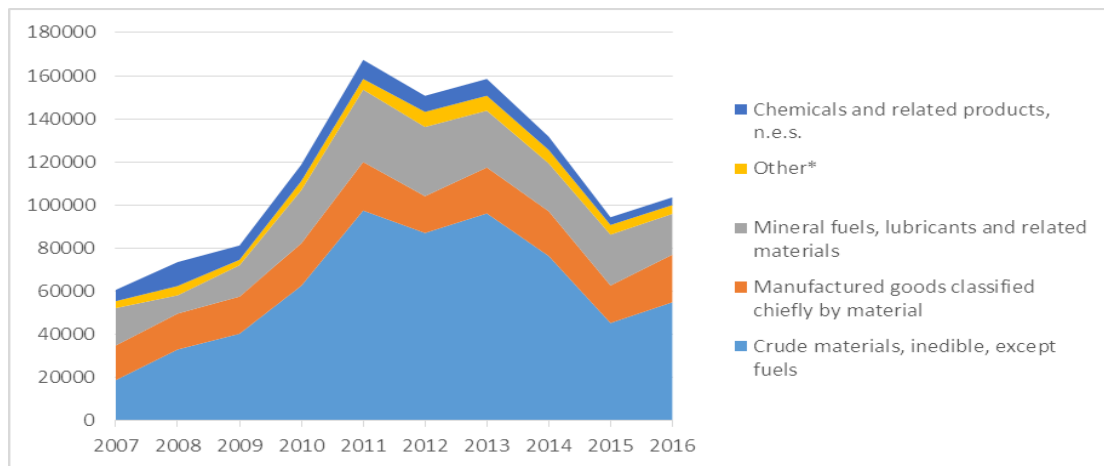
Despite the remarkable growth in trade however, the nature of this trade has been highly inequitable. South Africa's imports from the BRIC countries – especially from China, which has the biggest weighting in the import basket - have largely been manufactured goods, machinery and transport equipment and miscellaneous manufactured articles (representing a combined 78.7% of imports in 2016; see Figure 3). In contrast, crude materials and mineral fuels have dominated South African exports (representing a combined 71.3% of exports in 2016) to the group, with manufactured goods constituting only 21.3% of total exports (see Figure 4). The dominance of commodity exports has been highly problematic for South Africa, which increasingly focuses on industrialisation to drive economic growth and to mitigate the effects of commodity price slumps by moving away from exporting primary commodities. Brazil and Russia, the other primary commodity exporters in the group, have faced similar challenges. It is also clear that demand for goods from South Africa has fluctuated dramatically, impacting negatively on predictability and sustained growth.

Figure 3 - South African Import Composition from BRICs (\$ million)



Source - UN Comtrade Database, accessed 25 February 2017, <https://comtrade.un.org/>. Based on own calculations. 'Other' includes 'Beverages and tobacco', 'Crude materials, inedible, except fuels', 'Mineral fuels, lubricants and related materials', 'Animal and vegetable oils, fats and waxes', and 'Commodities and transactions not classified elsewhere in the SITC'.

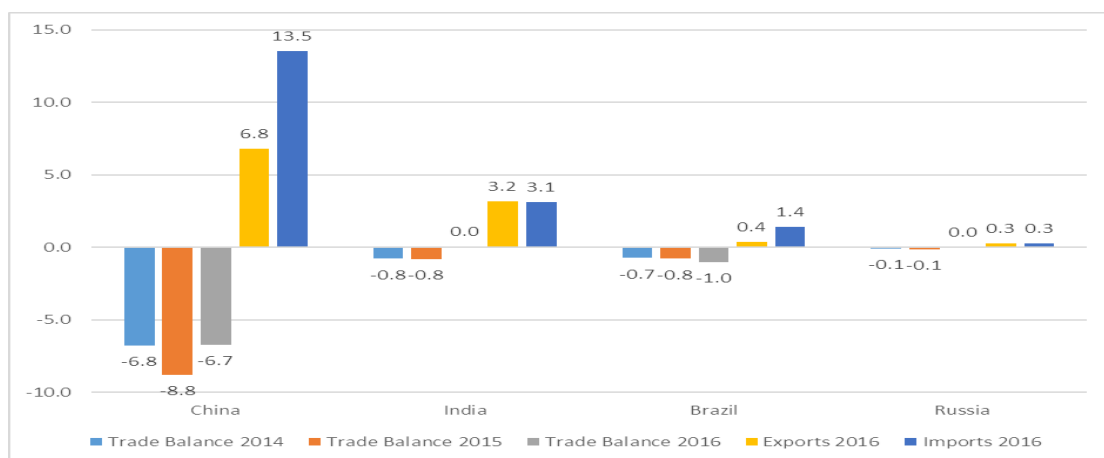
Figure 4 - South Africa Export Composition to BRICs (\$ million)



Source – UN Comtrade Database, accessed 25 February 2017, <https://comtrade.un.org/>. Based on own calculations. 'Other' includes 'Commodities and transactions not classified elsewhere in the SITC', 'Animal and vegetable oils, fats and waxes', 'Miscellaneous manufactured articles', and 'Beverages and tobacco'.

An analysis of South Africa's trade with the BRICS would be incomplete if the significant disparities between the partners were not highlighted. In 2016, of the country's total trade with its BRICS counterparts, trade with China constituted 70.4%, India 21.6%, Brazil 6.2%, and Russia 1.9%. As can be seen, trade trends with the BRICS are heavily influenced by demand from China, which have been fluctuating since 2011. Compounding the structural issues highlighted above, South Africa has, with a few exceptions, consistently posted significant trade deficits with the group (see figure 5). The dominance of primary commodity exports to China, rather than higher value-added manufactured goods, has driven this trade deficit and undermined South Africa's industrialisation efforts.

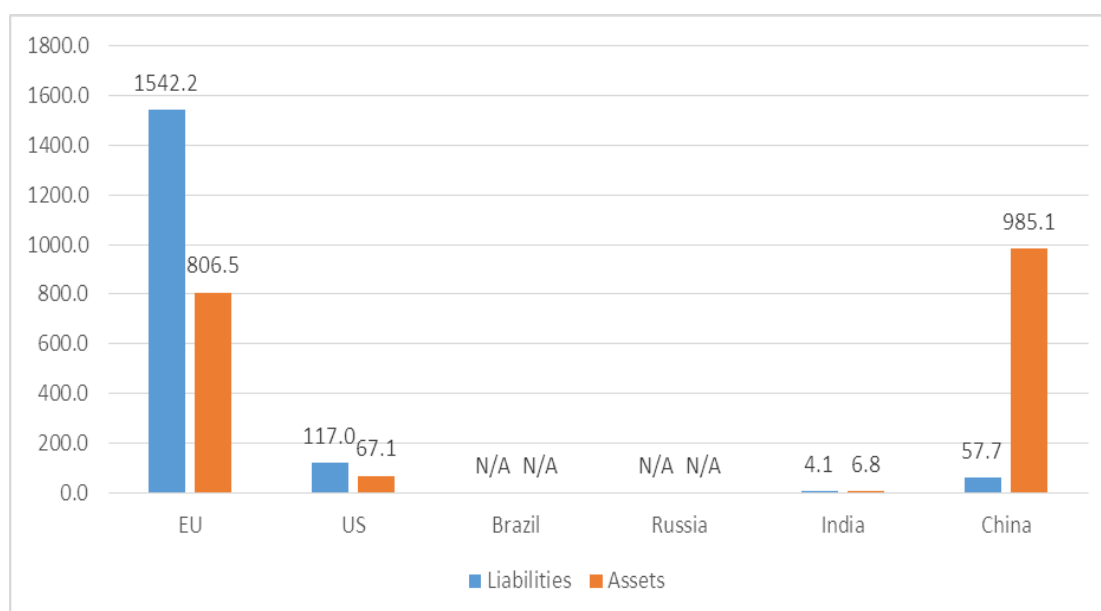
Figure 5 - South African Trade with BRICs (\$ billion)



Source – ITC TradeMap Database, accessed 25 February 2017, <http://www.trademap.org>.

Direct investment data between South Africa and its BRICS counterparts (see Figure 6) shows that investment from the BRICS has remained low, with Brazil and Russia unrecorded because of the negligible size of their investments. BRICS investment into South Africa (liabilities) is especially low when compared to South Africa's traditional economic partners, the EU and the US. Greater intra-BRICS investment would support stronger economic ties between BRICS members, opening the door to stronger business-to-business relationships and the growth of intra-BRICS value chains and ultimately promoting greater industrialisation and trade for South Africa.

Figure 6 - Total Direct Investment of South Africa – Select Partners (as of 31 December 2015, ZAR billions)*



*ZAR is the currency code for South Africa Rand

Source 1 - South African Reserve Bank. 'Full Quarterly Bulletin - No. 282, December 2016'. Accessed 25 February 2017, <https://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/Quarterly-Bulletin.aspx>

Among the BRICS partners, it is not only South Africa that grapples with these trade issues. Given the BRICS' geographic, economic and cultural differences; logistics, trade-related regulations, lack of information and language barriers remain key constraints to greater trade and investment linkages.³ In addition, numerous businesses note that private sector ties and cooperation within the group have not kept pace with the political dialogues held and agreements signed between the governments.⁴ This raises the question about the value of the political discussions within BRICS and whether South Africa and the other partners are optimising their partnership to support economic cooperation.

Recommendations

Despite the challenges in intra-BRICS economic relations noted above, South Africa should argue the case for stronger economic cooperation within the grouping. Firstly, while it appears that financial cooperation, specifically with regards to the New Development Bank and the mooted BRICS credit rating agency, is likely to dominate discussions under China's chairmanship in 2017, intra-BRICS trade and investment should not be neglected. South Africa's opportunity to shape the economic priorities of the BRICS agenda will be even greater in 2018 when it is the next host of the BRICS. South Africa could again follow the approach adopted in 2013 when it last hosted the group to draw in the participation of other African countries to help focus BRIC attention on the underlying business opportunities in its own region, as well as its own efforts to support the development of regional value chains that could link into global value chains.

Secondly, South Africa could push to ensure that agreements and undertakings already made within the group are being implemented. In 2016 at the meeting of the BRICS Trade Ministers, a number of initiatives were proposed to promote trade and investment, including facilitating a greater enabling environment for micro, small and medium enterprises, addressing non-tariff measures, promoting greater cooperation on trade facilitation measures such as standards and single windows, promoting trade in services sectors, intellectual property rights cooperation and collaboration on e-commerce related issues.⁵ Equally, the *Strategy for BRICS Economic Partnership* adopted at the Ufa Summit in 2015 highlights a number of areas for economic cooperation aimed at promoting trade and investment ties. Ensuring implementation of such commitments remains vital.

Thirdly, given the plethora of cooperation agreements, memorandums of understanding, roadmaps and plans, it is often difficult to ascertain the level of implementation of accords among the five BRICS countries. Establishment of a monitoring mechanism to track commitments and ensure implementation would be useful. So too will a centralised repository of BRICS-related documents and agreements (beyond the University of Toronto-hosted BRICS Information Centre).

Ultimately, South Africa's economic relations with the BRICS have offered mixed results. However, the inherent potential of the group is worth the effort and South Africa could do more to build a greater consensus and political commitment towards economic cooperation. It should make a special effort to engage the South African business community in these efforts.

Reference List

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4. *Ibid.*
5. BRICS. 'Trade Ministers Communique: 6th Meeting of the BRICS Trade Ministers'. Accessed 27 February 2017, <https://www.tralac.org/images/docs/10666/6th-meeting-of-the-brics-trade-ministers-communique-october-2016.pdf>.



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