South Africa’s position in BRICS
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## South Africa’s Position in BRICS

### Acronym List

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<th>Full Form</th>
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<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<tr>
<td>CIA</td>
<td>Central Intelligence Agency</td>
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<tr>
<td>EPWP</td>
<td>Expanded Public Works Programme</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>G6</td>
<td>Group of Six</td>
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<td>G7</td>
<td>Group of Seven</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HDI</td>
<td>Human Development Index</td>
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<td>km²</td>
<td>square kilometres</td>
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<td>NGP</td>
<td>New Growth Path</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>US$</td>
<td>United States Dollar</td>
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<tr>
<td>SAIIA</td>
<td>South African Institute of International Affairs</td>
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<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>TMSA</td>
<td>TradeMark Southern Africa</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNGA</td>
<td>General Assembly of the United Nations</td>
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Executive Summary

Brazil, Russia, India and China were originally grouped by Jim O’Neill as BRICs in 2001. These emerging economies were forecast to realise fast economic growth and be larger than some of the developed economies. In 2006, this group officially became a diplomatic-political entity called BRIC. South Africa officially joined in 2011 and the acronym was extended to BRICS. These countries’ collaboration is aimed at meeting economic needs of this century which include infrastructure development, consumption and increased trade. The strength of the BRICS economies is of ever increasing importance to the global economy. BRICS’ collective contribution to world GDP has increased from 11 percent in 1990 to 25 percent in 2011. Within the bloc, China has the largest economy and the fastest growing gross domestic product (GDP). Between 2000 and 2011, all BRICS member countries have realised positive GDP growth with South Africa recording the lowest average growth of 3.5 percent and China the highest at 102 percent. South Africa is falling short of matching similar levels as that of those other BRICS member. Amongst other things, the country has the smallest population, the highest unemployment rate and the lowest savings. Its inclusion into the bloc has been met with mixed reaction due to its differences with the other BRICS member countries. The country will however benefit from being in BRICS through the flow of foreign direct investment and increased trade. The country’s also has to guard against cheaper imports that could impact negatively in the local produced outputs resulting from the relationship with the BRICS group.
1. Introduction

According to Goldman Sachs (2001), Brazil, Russia, India and China, known as the BRIC group, are collectively expected to overtake the major economic powers over the next few decades. Their growth is expected to shape a new economic order, replacing the one currently dominated by advanced economies. According to Bloomberg News (15 June 2012) the BRIC group collectively accounted for approximately 11 percent of World Gross Domestic Product (GDP) in 1990 and this increased to about 25 percent in 2011. China in particular has been an outstanding emerging economy, recording economic growth of about 10 percent in the past 10 years. China is known as the factory of the world, Brazil the garden of the world, Russia the gas station of the world and the back office of the world is India. The BRIC countries are said to have a lot in common in terms of population, GDP and unemployment. South Africa recently joined this bloc, extending the name to BRICS. It joins the bloc as the jeweler of the world and as a gateway to Africa. Its inclusion has not been welcomed by most analysts.

According to the Global Sherpa\(^1\) (2009) the formation of BRICS is an effort by its members to foster cooperation in order to meet global challenges, especially those faced by emerging economies. The collaboration of these countries aims to meet the economic needs of this century which include investment in infrastructure development, consumption and increased trade. This paper provides information on the historical formation of the BRICS group, geographic setup of their economies, their socio-economic and economic indicators, in order to investigate similarities. It also discusses the strengths and weaknesses of each of the respective member countries. An investigation is made into how South Africa fits in the group, the reasons for its inclusion, as well as the benefits and costs of the country’s inclusion in BRICS.

\(^1\) The Global Sherpa is an organisation that promotes awareness and knowledge about important issues and ideas in international development, sustainability, globalization and world cities.
2. Background of BRICS

2.1 History

The original BRIC acronym representing Brazil, Russia, India and China originates from a 2001 paper titled "Building Better Global Economic BRICs" which analysed the emergence of these economies as powerhouses. In this paper by Goldman Sachs\(^2\), the economist Jim O’Neill coined the collective description of these economies as BRICs. The study had forecasted that these economies would be among the six largest economies by 2050.

In 2003, Goldman Sachs published a follow up paper "Dreaming with BRICs: The Path to 2050", which predicted that by 2040, GDP for BRICs’ economies collectively would be larger than the Group of Six (G6)\(^3\) in terms of United States (US$) dollars. By 2025, it is predicted that BRICs economies will account for over half the size of the G6. Figure 1 below shows the projection that the largest economies in 2050 would be led by China, at US$44.4 billion, followed by the US, India, Japan, Brazil and Russia.

![Figure 1: GDP Projections in US$, 2050](image)

Source: Goldman Sachs, 2013

\(^2\) The Goldman Sachs Group is a global investment banking securities and investment management firm that provides a wide range of financial services to corporations, governments, financial institutions and high-net worth individuals.

\(^3\) The G6 is made up of the United States, United Kingdom, France, Germany, Italy and Japan. The G7 consists of the same members as the G6, with the addition of Canada.
To arrive at these forecasts, Goldman Sachs has used various assumptions to nominal GDP, real GDP and CPI. In the paper, it is indicated that the values used for these variables have been derived from the organisation’s best guess of the likely trend growth and inflation path over the next ten years. Based on these assumptions could forecast how the relative size of these countries may change.

Following the confirmation of the growth potential of the four economies, a platform was created for dialogue, information sharing, identification of common interest and the coordination of actions. The Foreign Ministers of BRICs had their first meeting in New York, in September 2006. This meeting was held as a side event to the 64th General Assembly of the United Nations (UNGA). According to the Government of Brazil, “…BRICs transformed from solely an acronym that identified four ascending countries to a diplomatic-political entity – BRIC.”

In 2009, Goldman Sachs updated its growth forecast for the BRICs economies due to the faster economic growth that these economies were realising. The revised figures indicated that the BRICs economies would be as large as the G7 by 2032, 7 years sooner than the initial forecasts in 2003. China was then forecasted to be as big as the US by 2027.

On the 16th of June 2009, the BRIC countries had their first summit at Yekaterinburg, in Russia. Discussions included tackling scenarios after the 2008 financial crisis, issues of global development and options for further strengthening the BRIC collaboration. The second BRIC summit was held on the 16th of April in 2010 in Brazil. Focus was on identifying intra-BRIC cooperation initiatives and also involving civil society like entrepreneurs in dialogue. In December of that year, South Africa was then officially invited to join the BRIC group at the third head of states meeting to be held in April the following year. The South African President, Honourable Jacob Zuma, attended the meeting in Beijing. South Africa therefore joined the BRIC members in their third BRIC summit which took place on the 14th of April 2011 in China. The new group name was extended to BRICS at this summit, thereby formalising the country’s acceptance into this group.
2.2 Reasons for South Africa’s Inclusion in the Bloc and the Reaction by the Global Community

South Africa’s inclusion into the BRIC group follows a request by the country to join the group and also numerous state visits by the South African President to these countries during 2010. The country was invited to join the group for numerous reasons, including it having the largest economy in Sub-Saharan Africa (SSA) and the fact that it accounts for about a third of the region’s GDP.⁴ According to the Gateway House⁵, other factors that worked in the country’s favour include, “vast natural resources such as gold, diamonds and platinum, excellent infrastructure, established corporate footprints, a culture of innovation, easy access to finance for business, a stable macro and micro financial climate, an advanced banking system and functioning regulatory frameworks”.

The country is also viewed to have an influence on the rest of the continent. It does not literally “represent” other African countries but it shares similar concerns of other SSA states like income inequality, poverty and unemployment. Its inclusion would offer BRIC members improved access to a very large consumer base in the African continent and also mineral resources, including oil and platinum. According to Global Sherpa, South Africa is also the most developed country in SSA and serves as a gateway to Africa.

China, which is regarded as the most dominant constituent of the BRICS, in particular perceives South Africa as an attractive country because of the large number of consumers, many of whom are relatively wealthy. The country also has the largest energy production capacity and it is also the largest producer of precious metals, such as gold and platinum. Both these features are attractive to Chinese investment and trade interests. China has massive financial stakes in the country, mainly in banking, infrastructure, mining, transport and renewable energy. According to the Gateway House, the Industrial Commercial Bank of China (ICBC) has a 20 percent stake (US$4.7 billion) in one of South Africa’s largest banks, Standard Bank.

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⁴ According to data from the World Bank, in 2000 South Africa’s GDP accounted for 40 percent of that of SSA followed by Nigeria at 16 percent. By 2012, South Africa accounted for 34 percent and Nigeria accounted for 20 percent.
⁵ The Gateway House is an Indian council on global relations. It was established in 2009 and serves as a foreign policy think-tank where leading corporations and individuals in India engage in debate regarding the country’s foreign policy and its role in global affairs.
The increased demand for oil in China has led it to increase its presence in the African continent in order to secure oil resources. China is also South Africa's largest trading partner. In the past few years the trade balance between the two countries has favoured China. According to the Gateway house, the Chinese Yuan has kept South Africa afloat during the recession. This then indicates the importance of China in the country’s foreign policy.

The inclusion of South Africa to the BRIC bloc has been met with mixed reactions. Some critics feel that other emerging economies with faster economic growth than South Africa could have been included, since “fast economic growth” is a common denominator within the group. According to Jim O’Neil, the inclusion of South Africa in the group is erroneous. “South Africa doesn’t belong in BRICS”. At an interview with the Mail & Guardian Online in 2012, Jim O’Neil indicated that South Africa’s economy was too small to be compared to those of the BRIC economies. He added that there are many similarities between the other four countries in terms of numbers. He felt that the inclusion of South Africa in BRICs has somewhat weakened the group’s power.

Jim O’Neil also indicated that, countries like South Korea, Indonesia, Mexico and Turkey were in the list of those that deserved to be in the BRIC group due to their very large population sizes and the relatively large sizes of their GDP. Market analysts feel that Nigeria would have been a better choice for an African country to join BRICS. According to the World Atlas$, Nigeria has a larger population size, estimated at 158.3 million in 2012 than South Africa, estimated at 49.9 million in 2012, and it also has on average a faster economic growth rate. In 2011, Nigeria had a GDP growth rate of 7.4 percent compared to 3.1 percent for South Africa.

According to data from the International Monetary Fund (IMF) October 2012 World Economic Outlook database, Brazil, Russia, India and China were among to the top 10 biggest economies in the world in 2012. Unfortunately South Africa is not showing any signs of potentially becoming one of the top largest economies as it was ranked 29th in the same period. In the past 10 years the country’s GDP growth has averaged about 3.5 percent, which is lowest of all of the BRICS members.

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$ The World Atlas has an interactive website that provides a list of countries with their population size, land size and population density.
2.3 Latest Developments in BRICS

The fifth BRICS summit is took place on the 26th to 27th of March 2013, at Durban International Convention Centre (ICC) in South Africa. According to a speech by the Minister of International Relations and Cooperation, Honourable Maite Nkoana-Mashabane, the theme for the summit is “BRICS and Africa - partnerships for development, integration and industrialisation”. The key focus areas of this summit were the promotion of Africa infrastructure development, the establishment of a BRICS-led development bank, a BRICS think-tank and a BRICS business council. The Minister’s speech was delivered at the Moses Mabhida Stadium in the joint press briefing with the Premier of the KwaZulu-Natal province, Dr Zweli Mkhize. This was with regard to preparations for the 5th BRICS Summit.

According to the Institute for Defence Studies and Analyses (2013), China could be expected to heavily campaign to have the BRICS development bank’s headquarters in Shanghai. With the advantages of having the largest GDP within BRICS, the largest importer and exporter and the third largest contributor to the overall World Trade Organisation budget, it appears to stand a better chance of winning the bid of hosting the bank.

The BRICS bank is anticipated to reduce the bureaucratic frustration that developing countries have faced in accessing loans, bids and financial assistance from the Bretton Woods Institutions. The development of the BRICS bank is not only a huge project for BRICS countries, but for the global financial structure whereby the role, stake and space of the developing world would grow massively.

The Business Day of 28th of March 2013 reports that the summit was a success. According to Minister of Economic Development, Honourable Ebrahim Patel, the outcomes of the summit which include establishing a BRICS development bank showed that there was concrete progress that would help promote stability and growth for member countries. The structure and function of the bank will still need to be designed. Furthermore, the President of South Africa, the Honourable President Jacob Zuma announced at the summit that the BRICS countries have agreed to set up a contingent reserve arrangement to pool currency reserves to protect against volatility in global financial crisis. According to the Mail &

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7 The Bretton Woods Institutions are the World Bank and the International Monetary Fund. They were developed at a meeting of 43 countries in Bretton Woods, New Hampshire, US in July 1944.
Guardian Online (28 March 2013), there was an announcement at the summit about the creation of the BRICS crisis fund, the Contingent Reserve Arrangement with an initial pledge of US$100 billion. This contingency reserve is perceived as distinct solidifier of intra-BRICS financial ties that will assist these emerging economies to reduce their reliance on the IMF. Both the BRICS development bank and the contingency reserve have been included in the eThekwini declaration and action plan signed by all member countries.

Other successes of the summit include numerous deals that have been clinched at the fringes of the summit. These include the deal between Transnet (a South African Parastatal in the transport industry) and the Chinese Development Bank. Transnet has received a loan worth about R5 billion from the Chinese Development Bank to finance upgrades at rail and port networks. Brazil and China have also signed a US$30 billion currency swap deal to support trade between them.

3. Country Analysis of BRICS Nations

This section provides geographic and socio-economic background information on each of the BRICS countries that include the geographies, population numbers, human development index and the infrastructure build-up.

3.1 Geography

<table>
<thead>
<tr>
<th>Country</th>
<th>National Flag</th>
<th>Total (km²)</th>
<th>Capital City</th>
<th>Administrative Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>🇧🇷</td>
<td>8,514,877</td>
<td>Brasilia</td>
<td>26 States and 1 Federal district</td>
</tr>
<tr>
<td>Russia</td>
<td>🇷🇺</td>
<td>17,098,242</td>
<td>Moscow</td>
<td>46 provinces, 21 republics</td>
</tr>
<tr>
<td>India</td>
<td>🇮🇳</td>
<td>3,287,263</td>
<td>New Delhi</td>
<td>28 States and 7 Union territories</td>
</tr>
<tr>
<td>China</td>
<td>🇨🇳</td>
<td>9,596,961</td>
<td>Beijing</td>
<td>23 Provinces and 5 Autonomous Regions</td>
</tr>
<tr>
<td>South Africa</td>
<td>🇿🇦</td>
<td>1,219,090</td>
<td>Pretoria</td>
<td>9 Provinces</td>
</tr>
</tbody>
</table>

Source: Central Intelligence Agency (CIA), 2013

Table 1 provides comparisons of the geographic sizes of the BRICS countries and gives information on the capital cities and the administrative regions. In terms of total area,
Russia is the biggest country, at 17.1 million square kilometres (km$^2$). Due to its large area, it also has more administrative regions than all the other BRICS members. The second largest country is China at 9.5 million km$^2$, followed by Brazil (8.5 km$^2$ million) then India (3.3 km$^2$ million). South Africa has the smallest area size at 1.2 million km$^2$ and the smallest number of administrative regions. According to the South African Institute of International Affairs$^8$ (SAIIA), the BRICS countries collectively account for over a quarter of the world’s land area.

### 3.2 Population

Amongst other factors, the population size of a country has a direct impact on the potential size of its economy. A large population capacity can function as an engine to a country’s economic growth and development.

**Figure 2: Population, Density and Growth, 2011**

![Population, Density and Growth, 2011](image)


Figure 2 shows the size, density and average growth rate of the populations of the BRICS countries. Not only does China have the largest population size amongst the BRICS countries, it has the largest population in the world at 1.34 billion. The relative size of its

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$^8$ The SAIIA is a non-governmental research institute focused on South Africa’s and Africa’s international relations. It provides analysis, promote dialogue and contribute to African policy making in a dynamic global context.
population and GDP\textsuperscript{9} supports the theory that population size impacts the economic build-up of a country. India follows with a population size of 1.24 billion. Both Russia and Brazil’s population are dwarfed by those of the Asian giants. Russia’s population size stands at 142 million and that of Brazil at 194 million. South Africa is the only country within the bloc with a very small population, of 50 million. In terms of average annual population growth, between 2000 and 2011, India had the fastest growth at 1.51 percent, followed by South Africa at 1.32 percent. According to Forbes magazine\textsuperscript{10}, India is forecast to overtake China as the most populous country in the world by 2030. Russia is the only country in BRICS that experienced a negative population growth rate of 0.25 percent. China has a low average population growth rate of 0.59 due its one child policy. India is also the most densely populated country, with a population density of 411 people per km\textsuperscript{2}, followed by China at 143 people per km\textsuperscript{2}. The population density in South Africa is 41 people per km\textsuperscript{2}, larger than that of Brazil (23) and Russia (8).

3.3 Human Development Index
The Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions of human development; a long and healthy life, knowledge and a decent standard of living. An HDI value of one indicates a very high level of development, while a value of zero indicates no development. The Figure 3 below and the section that follows gives analysis of progress made in terms of human development within the BRICS countries.

\textsuperscript{9} China’s GDP is also the largest among the BRICS countries. This can be seen from Figure 5
\textsuperscript{10} Forbes is an American business magazine. It is well known for its lists of the richest Americans, and its list of billionaires.
Figure 3: HDI, 1980-2011

Source: UNDP, 2013
Note: HDI figures for Russia in 1980 and 1990 were not available

Figure 3 shows the HDI values of the BRICS members in various years and includes 2009 to 2011 as the most recent years with available information. Within the bloc, China has made the greatest progress in human development, with an average annual HDI growth of 1.73 percent between 1980 and 2011. According to the 2011 Human Development Report by United Nations Development Programme (UNDP), income per capita in China has grown by 1,200 percent over the past 40 years. The HDI for China was around 0.89 annually from 2009. Both Brazil and Russia have also recorded some improvement, recording HDI figures of 0.72 and 0.76 respectively in 2011. South Africa is the only country that has not had noticeable improvement; in fact in 2005 there was some regress in the HDI. The reason behind the decline was a drop in life expectancy that resulted from high Human Immunodeficiency Virus (HIV) prevalence rates. After India, South Africa had the second lowest HDI of 0.62 in 2011. India has the lowest HDI compared to the other BRICS members at 0.55. However, it has made great improvements, since its HDI had an annual average growth of 1.53 percent. Both India and South Africa still need to keep up pace with the other BRICS members if they are to achieve similar HDI levels.

3.4 Infrastructure Build-up

According to Dr. Jeffrey Delmon, a senior infrastructure specialist at the World Bank, “In order to stimulate growth and reduce poverty, it is essential to improve the supply, quality and affordability of infrastructure services.”....infrastructure investment is one of the
mechanisms to increase income, employment, productivity and consequently the competitiveness of an economy. This section uses data from the World Economic Forum to compare BRICS countries in terms of their infrastructure. Information from the Global Competitiveness Report 2012-2013, is used.

**Figure 4: Quality of Infrastructure by Type, 2012-2013**

Figure 4 shows the quality of infrastructure by type for the BRICS countries. The infrastructure quality scores of air transport (6.1), roads (4.9) and ports (4.7) in South Africa are better than the rest of the BRICS members. China has better infrastructure quality scoring on electricity supply (5.2) and railroad (4.6). The infrastructure quality of air transport (3), ports (2.6) and railroad (1.8) in Brazil lags behind that of other member countries. The overall quality of infrastructure in South Africa is better than that of the other members. South Africa’s score of overall quality is 4.5, followed by China at 4.3, India (3.8), Russia (3.5) and Brazil (3.4). The better quality of infrastructure in South Africa could be explained by the relatively small size of the land area of the country, thereby making it easier to maintain its smaller infrastructure stock.
3.1 Strengths and Weaknesses of BRICS Countries

The BRICS members have a number of diverse characteristics which present opportunities for trade. Table 2 below shows the key strengths and weaknesses of each of the respective BRICS countries in terms of economic variables.

Table 2: Key Strengths and Weaknesses

<table>
<thead>
<tr>
<th>Country</th>
<th>Key Strengths</th>
<th>Key Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Boasts abundant natural resources (iron ore, hydropower, timber, coffee, soya beans, sugar cane, iron and crude oil).</td>
<td>Lacking economic infrastructure (poor investment in road, rail ports and energy). Very high lending interest rate (averaging to 16.25 percent).</td>
</tr>
<tr>
<td>Russia</td>
<td>Has a wealth of natural resources dominated by huge deposits of oil, natural gas, coal and other minerals. A skilled labour force. Relative political stability.</td>
<td>Has amongst the lowest investment rates compared to other emerging economies, resulting in industries not being competitive due to obsolete capital equipment.</td>
</tr>
<tr>
<td>India</td>
<td>Strong information &amp; technology sector and service sector. Has some natural resources (coal, manganese and natural gas).</td>
<td>Very large public debt as percentage of GDP (±74 percent). Debt service costs eroding funds for development spending.</td>
</tr>
<tr>
<td>South Africa</td>
<td>Abundant deposits of gold, platinum, coal and chromium. Fairly stable political environment. Competitive financial and business service sector.</td>
<td>Very high unemployment rate. The insignificance of the country's economy compared to other BRICS members. Rising labour cost. Declining manufacturing sub-sector to GDP.</td>
</tr>
</tbody>
</table>

Source: Consultancy Africa Intelligence, Trade Economics and Global Edge, 2013

4. Economic Comparisons of BRICS Countries

The economic size and trade capacity of a country plays an important role in determining its success in multi-lateral trade with other countries. The BRICS countries can maximise this opportunity by increasing trade amongst themselves.

4.1 Gross Domestic Product

GDP indicates the amount of economic production taking place in an economy, calculated as the total output within a specific year. A good economy also promotes investment by
allowing companies to realise high profits, which in turn means high stock prices. Figure 5 shows the economic sizes of the BRICS countries and compares them to that of the United States. Economic size is measured using the World Bank’s Purchasing Power Parity (PPP) levels. GDP at PPP uses exchange rates to benchmark the sum value of all goods and services produced in a country valued at prices prevailing in US$. This makes possible comparisons amongst different countries.

**Figure 5: GDP (PPP), BRICS and US, 1980 to 2011**

The US is included in Figure 5 because it has had the largest GDP in the world, dating back to 1960. It is also included to indicate that China is bridging the GDP gap between the two countries. In 1980, the GDP of the US was $5.7 trillion; by 2011 it had grown to $13.2 trillion. China’s GDP has increased from a low $514 billion in 1980 to $9.9 trillion in 2011, making it the second largest economy in the world. The data clearly indicates that China could surpass the US in GDP size in the near future. According to PricewaterhouseCoopers (2012), this could happen by 2017. India’s economy seems to also be gaining momentum, as it has increased from a low of $615 billion in 1980 to $3.9 trillion in 2011. Russia and Brazil have both had gradual growths in the size of their GDP. Between 1989 and 1994, Russia had a significantly higher GDP than Brazil; thereafter their GDPS were trending
similarly. South Africa does not only have the smallest GDP in BRICS (at $475 billion in 2011), it is the only country that has seen very little growth in the size of its GDP. All the BRICS countries have proven to be able to grow their economies greatly and are becoming potentially large economies, but South Africa has not shown this potential. This then raises the concern of whether South Africa fits in the group. It raises questions of whether the country does deserve to be in BRICS. Based on the GDP figures and other indicators, the inclusion of South Africa in BRICS appears to have been based on a political move and not one based on economic facts and figures.

Figure 6: GDP Growth Rates, BRICS and US, 2000-2011


Figure 6 indicates the annual GDP growth rates for BRICS and the US from 2000 to 2011. The annual GDP growth rate for China has been higher than that of other BRICS members and the US since 2001, ranging between 8 percent and 15 percent. In 2011, its GDP grew by 9.3 percent, with India having the second highest growth at 6.9 and then Russia at 4.3 percent. The GDP growth rates for South Africa and Brazil were the lowest, at 3.1 percent and 2.7 percent respectively. The GDP growth for the US has decelerated over the years, with an average annual growth rate of 1.8 percent.
4.2 Savings and Investment

A high savings rate allows for large investments to take place in an economy, thereby stimulating economic growth. Within BRICS, China has the highest saving and investment as a percentage of GDP. This explains its very large GDP.

Figure 7 shows savings and investment, both as a percentage of GDP, for BRICS nations in 2000 to 2011, estimates for 2012 and forecasts to 2017. The dashed lines indicate savings while the solid lines show investment. Savings as a percentage of GDP in China has been higher than that of its fellow BRICS members, increasing from 38 percent in 2000 to 54 percent in 2009 before contracting to 50 percent in 2012. Driven by the savings in the country, investment as percentage of GDP in China is also high, at 48 percent in 2012. The two variables experienced declines from 2009, with savings flat to 2011. Forecasts show the shares of savings and investments to GDP are to slightly decline to 49 and 45 percent respectively. South Africa has had the lowest savings as percentage of GDP since 2003, at 16 percent and 15 percent in 2012. Although it has the lowest saving within BRICS,
investment as percentage of GDP has been generally higher than that of Brazil. The share of savings to GDP in South Africa is expected to increase to 17 percent by 2017 and still remain the lowest within BRICS.

According to Trade Economics\textsuperscript{11}, foreign direct investment (FDI) is defined as net inflows of investment to acquire a lasting management interest in another enterprise operating in a different country. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short term capital. Figure 8 displays the value of FDI flowing into several African countries from 2000 to 2011. The reason for SSA inclusion is to show that these African countries are already receiving FDI without the assistance of South Africa’s inclusion in the BRICS group.

\textbf{Figure 8: FDI Net Inflows, Selected SSA Countries, 2000-2011}

Nigeria has been able to conscientiously attract increased values of FDI between 2000 and 2011; meanwhile South Africa has had a fluctuating inflow. Figure 8 shows that South Africa’s status as the gateway to Africa is not unchallenged, as countries like Nigeria are able to attract higher FDI. From 2009 to 2011, Nigeria has had a higher net inflow of FDI than South Africa. The net inflow to Nigeria, an oil producing nation, totalled US$8.8 billion in 2011, making it the biggest African destination for FDI that year. South Africa recorded a

\textsuperscript{11} Trade Economics is a website that provides information for 232 countries including historical data on economic indicators, exchange rates, stock market indexes, government bond yields and commodity prices.
net inflow of US$5.7 billion. Some countries like Botswana, Lesotho and Mozambique attracted very little FDI during this period.

According to Chimhanzi (2012), a bad assumption is normally made that since South Africa is “the gateway to Africa”, investors will choose the country as an entry point for all African investments. She claims the reality is that significant investments are flowing directly into respective African countries as these markets currently boast higher GDP growth rates than South Africa. China is signing bilaterals with other African countries and South Africa should not relax and hope that investment will just flow into the country as it is “the gateway to Africa”. Accelerated economic activity in the continent has also increased competition. Very large South African companies now have to compete against a new breed of African companies. According to Chimhanzi, companies like the Dangote conglomerate of sugar and cement and Econbank in financial services are not receiving much publicity in South Africa but their impact is increasingly felt in the continent.

4.3 Unemployment

A high unemployment rate in a country means that a very large portion of the labour force is not economically productive. These unemployed persons, if provided with the opportunities to be productive, can boost economic growth and reduce the burden on government to provide social support, thereby allowing governments to focus on economic development.
Figure 9 shows the unemployment rates for the BRICS countries for 2000 to 2010, estimates for 2012 and forecasts to 2017. Due to unavailability of data India is excluded, however, according to the CIA, its unemployment rate is estimated to have been 9.9 percent in 2012. At 24.3 percent in 2012, South Africa clearly has the worst unemployment rate of all the other BRICS members. This unemployment rate is four times higher than the 6 percent of both Brazil and Russia in 2012 and six times higher than the 4 percent of China. South Africa therefore faces a labour market challenge that is very different from the other bloc members. This is possibly due to due to unskilled labour. The South African government has introduced programmes and strategies that would address this chronic labour challenge. The Expanded Public Works Programme (EPWP) and the New Growth Path (NGP) strategy are some of these.

According to the Department of Public Works, the EPWP is aimed at providing poverty and income relief through temporary work for the unemployed to carry out social useful activities. The programme had target of creating 1 million jobs during its first phase (2004-2009). This target was achieved by 2008. The second phase of the programme has a target of creating 2 million full time equivalent jobs by 2014. Furthermore, the NGP framework released in November 2010, aims to create five million jobs by 2020, thus reducing the high unemployment rate in the country to about 15 percent. Increased employment would
reduce income inequality through wages and salaries earned by those five million additional members of the workforce.

4.4 Trade

Trade is critical for growth and diversity. Countries exchange goods and services to make up for the demand for products that may not be produced locally, also where there is a shortage of supply.

Figure 10: Exports and Imports, BRICS, 2011

Note: Export and Import values for India exclude the value of services due to data unavailability.

Figure 10 shows the value of goods and services exported and imported by the BRICS nations in 2011. At US$2.08 trillion and US$1.99 trillion for exports and imports respectively, China has the highest value of trade. It is also forms the largest exporting country in the world. According to Trade Economics (2013), China exports mainly electromechanical products and labour-intensive products such as clothes, furniture and toys. The country’s main imports are crude oil and iron-ore. Its economic expansion is said to be strongly supported by export growth. Russia had the second largest value of exports, at US$575 billion, while India had the second largest value of imports, at US$450 billion. Amongst the BRICS members, South Africa had the lowest value of total exports and imports at US$111 and US$140 billion respectively. This illustrates the importance of increasing productivity in South Africa because its value of trade relative to that of China is
extremely low. The figure below highlights the share of trade by South Africa to the BRICS region.

**Figure 10: South Africa’s Share of Exports and Imports, BRICS, 2000-2012**

![Graph showing South Africa's Share of Exports and Imports, BRICS, 2000-2012](image)

Source: Quantec Research, 2013

Figure 10 shows the share of exports to and imports from Brazil, Russia, India and China for South Africa from 2000 to 2012. Within the bloc and the world, China is South Africa’s major trading partner. Over the past 12 years, the shares of exports to China have increased from 1.4 percent in 2000 to 11.6 percent in 2012. According to TradeMark Southern Africa 12 (TMSA), the biggest export to China is the Rand currency of notes and coins. The shares of imports from China have increased from 3.7 percent to 14.4 percent over the same period. India is increasingly trading more with South Africa, with export shares increasing significantly from 2006 and import shares increasing from 2007. The share of exports to India was 4.3 percent in 2012 and imports had a share of 4.5 percent. The shares of exports and imports to Brazil and Russia have not changed much over the past 12 years. In 2012, 0.48 and 0.92 percent of South Africa’s exports went to Russia and Brazil respectively. The country had 0.20 and 1.7 percent shares of its imports from these countries. Imports from Brazil include chemicals, vehicles, machinery, iron and steel, paper, ceramics, while those from Russia include fertilizer mixture, mineral fertilizers and wheat.

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12 TradeMark Southern Africa is an organisation that supports improvements to the trade performance and competitiveness of the Eastern and southern Africa regions.
As expected, after South Africa joined BRICS in 2011, the trade shares increased. In 2010, 19.7 percent of South African exports went to the BRICS nations; by 2012 this share had increased to 20.7 percent. The share of imports from BRICS increased 15.2 percent to 17.3 percent in the same period. China remains the main trading partner and India is showing signs of improving its trade position with South Africa. With this information in mind it makes sense why China has a strong interest in South Africa; it sees significant trade opportunity in the country.

5. Benefits and Risks of South Africa being in BRICS

South Africa’s entry into the group has come with a lot of controversy. According to the International Centre for Trade and Sustainable Development, there are concerns that BRICS will not increase trade prospects for the country and the continent, but will actually hamper the regional integration processes. Below a list of benefits and risks of the country being in BRICS are highlighted.

5.1 Benefits of South Africa being in BRICS

- The country can attract increased FDI from BRICS members, as well as allow domestic companies to invest mainly in those countries.
- With the abundant natural resources in South Africa and the rest of Africa, this creates an opportunity for trade with BRICS countries to meet their resource appetite.
- The country is well-positioned to benefit from joining BRICS as it will receive greater global exposure. South Africa’s membership in BRICS offers huge potential for the country to boost its competitiveness via cooperation in investment and trade.
- Increased FDI would stimulate economic growth, thereby enabling the country to address some of its persistent problems of high unemployment and poverty.

5.2 Risks of South Africa being in BRICS

- The country has the smallest GDP and population, which could threaten its competitiveness. South Africa’s economic growth has been lagging behind that of other members. This could constrain its ability to exploit opportunities that may be made available by joining BRICS.

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13 The International Centre for Trade and Sustainable Development is an independent non-profit and non-governmental organisation that engages a broad range of parties in ongoing dialogue on trade and sustainable development policy.
• Economic stakeholders take care of self-interest first. South Africa must know exactly the kind of trade relations it wants and set clear policies to avoid exploitation.
• Malpractices by some of the member countries, such as China in terms of labour practises, should be avoided in the country.
• Increased competition from competitive imports (China has already infiltrated the domestic textile industry).
• Ownership of Africa’s natural resources being shifted to other BRICS members.

6. Conclusion

Brazil, Russia, India and China were originally coined to members of BRIC in 2001 by Jim O’Neil. He identified these countries as having fast growing economies and projected that they would be among the top six largest economies by 2050. These countries formally became a political-diplomatic entity in 2006 called BRIC. In, 2011 South Africa officially joined the group and the name was extended to BRICS.

The acceptance of South Africa into the BRIC group, necessitated a change of the acronym to BRICS, appears to be based on other factors than similarities it has with the original members as it appears to have lagging characteristics. The country is the smallest in terms of land area, population size, GDP, savings as a percentage of GDP and value of exports and imports. This raises concerns of how it is grouped with economic giants like China. Amongst other reasons, the country’s inclusion is said to have been based on the fact that it has the largest economy in SSA and an advanced banking system. The country is also regarded as “the gateway to Africa”. This is questionable as huge sums of FDI already flow to other countries such as Nigeria in Africa.

Within the bloc, China has the largest trade values, with exports valued at US$2.08 trillion and imports US$1.99 trillion. It is also South Africa’s major trading partner. Brazil, Russia, India and China were among to the top 10 biggest economies in the world in 2012. According to data from the IMF, South Africa is not showing any signs of potentially becoming one of the top largest economies as it was ranked 29th in the same period. The country would require huge changes in its socio-economic structure if large economic growth rates were to be realised. Some of the factors hindering economic
growth in the country include the rising labour costs and the very high unemployment rate. For South Africa to benefit from being a member, trading negotiations or deals with other BRICS countries need to be in a way that employment will be created in the country as well as the country leveraging resources. The proposed development of a BRICS bank could help rebalance the global economy by serving the developmental needs of emerging economies by bridging the infrastructure financing gap.

For South Africa and other African countries to optimise in the collaborations of BRICS, strategies should be designed to guide their engagement with investors in order to ensure that deals secured offer the best economic and social value for African countries. The African countries should not expect sympathetic treatment from the BRICS group but be competitive in their business dealings.
Reference List


