BRICS Cooperation and Possible Futures for the Global Economy

*Key Note Speech at Launch of Joint Research on Confidence Index of Chinese Enterprises' Investment in South Africa, Wits University, Johannesburg, 19 May 2023, by **Dr Kenneth Creamer**, School of Economics and Finance, University of the Witwatersrand*

I greet everyone present – including senior representatives of the Bank of China and the University of the Witwatersrand, who have made this event possible, academics, and members of the university and business' communities, ladies and gentlemen.

It is a great honour for me to have been invited to talk at this important gathering which will herald the launch of joint programmes and deepened collaboration between our University, the Bank of China and members of the wider Chinese business community in South Africa, as represented in large part by the South Africa China Economic and Trade Association.

I have been asked today to offer my reflections on the topic of 'BRICS cooperation and Possible Futures for the Global Economy'.

The topic of today's speech is not an easy one to deal with in a comprehensive manner, but it raises many exciting and important issues for all of us to think about and discuss, as it is widely accepted that there are significant economic gains that can be achieved through increased cooperation between countries of the Global South, including between China and South Africa, and between China and the continent of Africa more broadly.

Informed discussion about BRICS, and the future of the global economy, necessarily involves elements of political, historical and economic analysis, as well as some conjecture about what the future may hold. Inevitably, in dealing with such a topic, there is substantial scope for debate and disagreement on certain issues, but we should welcome such debate as intellectually healthy and as a necessary part of building true partnerships and deepening mutual understanding.

When I teach my students about the powerful impact that economic growth can have in transforming people’s lives, and when I talk to them about the policy discipline that governments need to adopt in order to achieve and sustain high rates of economic growth over a long period, I inevitably include in my lectures reference to the role of the great Chinese leader, Deng Xiaoping. Deng’s policies helped to accelerate the rate of economic growth in China in the 1980’s and 1990’s to well above the world and OECD growth rate average. This period of rapid economic growth completely changed China and in many ways helped to create the world as we know it today. (See: Fig. 1 China GDP per capita growth rate vs OECD average.)

I tell my students that there is much that we in South Africa can learn from Deng’s wise words that: "*It doesn't matter whether a cat is black or white, as long as it catches mice*."

Through these words, Deng is reminding us that we need to be pragmatic, practical and focused on results, in order to achieve economic progress – “to catch mice”. Deng is telling us not to be side-tracked and misled by the false allure of populism, that we must not allow ourselves to be caught up with policy frameworks that might sound compelling, but which or not practical and which ultimately will limit economic growth and hold people in poverty and deepen their suffering.

I interpret Deng to be telling us that an economy that grows inclusively and works for the masses of the people, is a good economy; and an economy that only works for a few – is not.

Deng is reminding us to be pragmatic and to allow both the state and the market to play their respective roles in advancing economic development. The state's role is to articulate a vision of inclusive development and provide effective governance, services and infrastructure. The market's role is to develop and deploy new technological applications and promote higher levels of efficiency in production and exchange.

This is the spirit in which I believe we must discuss today's topic. We must first consider what BRICS is, and what potential BRICS has for improving our economic performance, with specific reference to strengthening China-South Africa relations and China-Africa relations. Thereafter, we can consider possible future scenarios for the global economy and how we should prepare to advance our programmes given such scenarios.

BRICS – made up of Brazil, Russia, India, China and South Africa – is a geopolitical grouping of countries working together for their mutual benefit and with the aim of rebalancing economic and political power in the world. Broadly speaking BRICS countries are from the Global South, with most BRICS countries having for some time been colonised or dominated by Western countries as a result of past Western expansion and colonisation.

BRICS countries represent about 3,2-billion people, over 40% of the world's population. BRICS member countries have a number of programmes for fostering international co-operation. A BRICS Business Council was established in 2013 in order to promote economic cooperation and deepen trade, investment and economic ties between the business communities of the BRICS member states. The New Development Bank (NDB), also known as the BRICS Bank, was established to mobilise finance for infrastructure investment in BRICS countries and other emerging market countries. The NDB is head-quartered in Shanghai and has a regional office in Johannesburg.

Through its many initiatives, BRICS seeks to reshape the world's existing international financial architecture and systems of trade and investment so as to strengthen the economic performance of countries in the Global South.

Since the first high level meetings of Brazil, Russia, India and China in 2006, its first summit in 2009, and the inclusion of South Africa in 2010, BRICS has become an important grouping in the global economy.

BRICS has also faced certain inevitable challenges as the global environment has changed over the past two decades or so. For example, there was a broad policy consensus as to the benefits of global trade and globalisation at the time when China joined the World Trade Organisation (WTO) in 2001. In more recent years, policies in support of globalisation and global cooperation have been on the decline and nationalism and narrower country-specific policy making has been on the rise – some have described this as a process of "de-globalisation".

Also, a number of BRICS countries saw changes of their governments, some of these government's displayed less commitment, and some more commitment, to BRICS and its programmes. And the world in recent years has experienced major economic shocks such as those arising from the Covid pandemic and those linked to the ongoing war between Russia and the Ukraine.

The global environment in which BRICS operates is challenging. An important compass for BRICS in navigating through these everchanging waters is for BRICS to remain true to its original mission of promoting mutually beneficial cooperation among its member countries and working to transform the world economic order into one that is fairer and more inclusive. In a sense, this is a global application of the vision for “common prosperity”, which has been articulated by Chinese President, Xi Jinping.

BRICS countries will be most effective if they can remain focused on the original mission of BRICS. BRICS countries must not allow themselves to be thrown off course by the rising tides of nationalism, the gales of protectionism, or even the storms of war.

BRICS must remain true to its mission of fostering economic development and a fairer world political and economic system. If it is decided that other countries are to join BRICS, as quite a number of countries have applied to join, then it must be a clear condition of such joining that all member states would have to adhere to the BRICS mission of fostering mutual economic development and building a fairer world political and economic system, rather than for any other geopolitical purposes.

South African President Cyril Ramaphosa has recently explained South Africa’s strategic approach on this issue, as follows:

“South Africa has… used its membership of… international forums like the G20 and BRICS… to advance the views and interests of countries in Africa and the rest of the Global South. Throughout, we have been firm on this point: South Africa has not been, and will not be, drawn into a contest between global powers.”

South Africa currently Chairs BRICS, following China in 2022, and South Africa is preparing to host the BRICS Summit in August this year. In the build-up to the BRICS Summit, under the auspices of the South African BRICS Business Council, there has been ongoing engagement with business councils and business chambers of other BRICS member states in order to explore economic opportunities.

Through this process, a number of working groups have been established focusing on such matters as knowledge sharing in agricultural technologies, the boosting of fertilizer production, plans for increased agricultural trade between BRICS countries, as well cooperation on health care, vaccine development, and malaria control and elimination.

These are positive developments, and it will be important that the upcoming BRICS Summit in August should build on these detailed and practical, economic engagements. Such engagements are the very building blocks through which the vision of increased South-South co-operation will be attained. It is through this kind of detailed and practical work by business and government leaders that the system of global finance, trade and investment will begin to be reconfigured, and a fairer, more inclusive world achieved.

The vast potential for increased joint action between China and South African is made clearer when we consider the specific characteristics of each of our countries.

South Africa and China are very different. China is an emerging world super power. It has a massive domestic market and has also been successful in exporting manufactured goods and high technology items throughout the world. China has controls on the inflow and outflow of capital which has brought stability and has had the benefit of reducing currency volatility, but the policy has also likely placed certain limits on the growing role of the Chinese currency in the global financial system.

South Africa, on the other hand, has a relatively small domestic market and a large part of the country's economic growth is driven by the export of raw materials, as well as a limited range of manufactured products, such as, cars and chemicals. South Africa imports a large portion of the technology, manufactured goods and fuel that the economy needs. There are no capital controls on non-South African individuals or companies operating in South Africa and South Africa is relatively dependent on the inflow of foreign capital for investment in the local market particularly given the country's relatively low level of domestic savings. This structural characteristic of the South African economy has resulted in a significant amount of currency volatility and has reduced the degree of autonomy available to South African policy makers.

South Africa is a relatively open economy, and the economy's openness has increased since the ending of apartheid in 1994. In addition to being a member of the WTO, South Africa has a free trade agreement with the European Union and benefits from the African Growth and Opportunity Act in accessing the United States market. In as much as South Africa's participation in BRICS is about promoting South-South economic cooperation and reshaping the global economic system, South Africa's entry into BRICS is consistent with the country's commitment to opening trade and investment flows with as many parts of the world as possible and is in line with the vision that South Africa should serve as a gateway for trade and investment in other parts of the African continent.

(See Fig. 2 showing exports from South Africa and Fig. 3 showing imports into South Africa) Despite these structural differences between the Chinese and South African economies, there are strong linkage between the two countries. China is a major trading partner for South Africa. In 2022, fully 10% of South African exports were to China, followed by the USA (9,4%), Germany (7,7%), Japan (7,5%) and the United Kingdom (5,5%). In the same year, about 20% of imports into South Africa come from China followed by India (7,6%), Germany (7,5%), the United States (7,5%) and Saudi Arabia (4,1%).

The composition of exports from South Africa to China is mainly made up of commodities and raw materials including gold, diamonds, iron ore, manganese and chromium ore. In recent weeks, South Africa exported a much larger amount of maize to China than the country has done in the past – indicating that China may, in future, offer a potential growing export market for a range of South African agricultural goods.

It would be best for the South African economy if it would be able to diversify its export basket to China over time to include the export of manufactured goods and processed agricultural and mineral products.

The main imports into South Africa from China include manufactured goods, such as, broadcasting equipment, computers, as well as beneficiated materials, such as, flat rolled iron and steel.

From time to time there are anti-dumping investigations by the South African authorities concerning goods sourced from China, and not too long ago the Chinese authorities temporarily blocked the export of South African beef into China due to a local outbreak of foot and mouth disease. These are the kind of normal trade disputes that should be expected as trade between South Africa and China continues to grow. Such issues, while very difficult for those involved, should pose no systemic risk to South Africa and China's strategic relationship, particularly if such matters are dealt with efficiently and fairly by the authorities in both countries.

As is well known, South Africa is facing a major electricity crisis that is having a seriously negative impact on the country's economic performance. This crisis is as a result of planning failures over a number of years, including the poor management of the country's energy transition to new energy technologies.

Through government's Energy Action Plan steps are now being taken to overcome the crisis by bringing new generation capacity on stream and by improving the performance of existing capacity, including through the following interventions:

- Skills and finance are being mobilised to assist state-owned electricity utility Eskom to improve the maintenance and performance of power stations;
- Ongoing bidding rounds are being undertaken to facilitate utility-scale investment in new wind and solar electricity generation capacity;
- There has been a removal of red tape on private investment in electricity generation, stimulating a spike in investments in new generation capacity;
- Tax incentives have been put in place to make it easier for households and firms to invest in their own solar systems;
- Budget relief has been announced for Eskom on condition that Eskom is restructured and there is accelerated investment in the country's national electricity transmission grid; and
- South Africa's Just Energy Transition Partnership with France, Germany, the United Kingdom, the US and the EU is being used to deploy USD 8,5 billion of concessional finance and grants in order, amongst other things, to expand investment in grid capacity.

It would be very useful, given South Africa's current challenges, for the Chinese government and Chinese businesses in South Africa to position themselves to play a role in helping the country to overcome its electricity shortage.

Perhaps China, or China working together with the New Development Bank, could also consider mobilising concessional finance and grants to assist South Africa's just energy transition?

Or, perhaps Chinese capabilities could be used to help to strengthen South Africa's national electricity grid and extend the national grid into areas with high solar and wind power potential, which is an urgent national priority for South Africa? (See Fig. 4 showing South Africa's National Electricity Grid Development Plan).

(See Fig. 5 showing solar panel imports to South Africa and Fig. 6 showing battery imports into South Africa.) The importation of solar panels and batteries into South Africa has increased dramatically in recent years. For example, for the whole of 2022 South Africa imported USD 345 million worth of solar panels, and already in 2023Q1 South Africa has imported USD 200 million worth of solar panels. China is a world leader in making solar and battery products and is the source country for most of these imports into South Africa.

Over time, through better alignment of South Africa’s just energy transition and the country’s industrial policy objectives, South Africa will seek initially to assemble and later manufacture certain battery, solar and wind energy components within South Africa itself. Such a localisation and employment creation strategy would be assisted if, through strategic planning, South African manufacturers could work closely with Chinese companies and link themselves to such companies’ global production systems, in a similar manner to the way in which South African manufacturing facilities have integrated into the supply chains of global automotive companies such as Toyota, Ford, BMW and Mercedes.

This process could be facilitated through backward linkages enabling manufacturer to source South African and African raw materials, including battery metals. The process would gain viable economies of scale if South Africa could set itself up as a manufacturing base to supply solar, wind and battery components to the wider African market and beyond as investment in new energy technologies gathers pace.

My fellow Wits academic, Mzukisi Qobo, as expressed it thus: “Africa has a high share of the world’s mineral reserves in critical minerals such as the platinum metals group, cobalt, chromium, vanadium, and titanium. Countries such as Zimbabwe have lithium in abundance. As such, the continent must use its natural resources strategically for leverage in bilateral trade deals… Africans should insist on value addition and better terms of trade and participation in global supply chains."

(See Fig. 7 showing world access to electricity by country). As the world works towards decarbonisation in order to respond to global warming and climate change, Africa faces a different, but related, set of challenges. Millions of Africans still do not have adequate access to electricity, so Africa's challenge is to mobilise large-scale investment in electrification programmes in a manner that is consistent with the world's decarbonization objectives.

An ambitious programme to invest in new electricity infrastructure for Africa, and to localise aspects of the upstream and downstream production linkages in the green energy value chain, could potentially be a very productive point of collaboration between China and Africa. China has the technology, and the know-how, and Africa has the market and the need for expanded infrastructure investment. Such a programme could even conceivably be positioned as one which opens a new African chapter in China's 'One Belt, One Road' infrastructure strategy.

Looking more broadly, all plans and joint actions between South Africa and China, and Africa and China, as well by BRICS member countries, will take place in the context of a changing world economy and of challenging geopolitics. What view should we take on what the future will look like for the global economy?

Historian Adam Tooze, who recently visited our university, has suggested three possible future scenarios.

The first is one where the world's powers see that globalisation is the most beneficial way forward and see to that global economic integration continues. In this regard, WTO Director-General, Ngozi Okonjo-Iweala, has advocated for policies that promote "reglobalisation” through increased integration of global trade and investment.

Tooze’s second scenario is that the world is on the cusp of a new historical epoch, a new cold war, a new era of decoupling and confrontation between the super powers.

His third scenario is somewhere in between the first and the second scenarios, it predicts neither a complete revival of globalisation, nor a full-scale decoupling between nations. As Tooze puts it: “A future world economy might be made up of a patchwork of antagonistic coalitions divided by more or less visible data curtains. States that have the resources will launch national policies… and a push for friendly supply chains.”

In my own view, if the world is to be guided by the logic of ‘pure’ economics, which aims at removing obstacles to trade and investment in order to improve living standards across the globe, then the first scenario of globalisation and reglobalisation will prevail.

On the other hand, if the logic of nationalism and national security becomes dominant, then the world is most likely to be pushed into the second, new cold war, scenario.

In the third scenario, which seems most likely if one reads the signs of the times, the logic of economics and the logic national security will both remain in play, jostling for policy primacy as the world is constantly confronted with changing sets of circumstances. If carefully managed, there is still scope in this third scenario for increasing global trade and investment, but there will at the same time be ongoing strategic competition, and the risk of conflict, between countries and blocs of countries.

Economists Dani Rodrik and Stephen Walt have described this third scenario as follows: “[O]ne can… envision a more benign order in which… world powers compete in some areas, cooperate in others, and observe new and more flexible rules of the road designed to preserve the main elements of an open world economy and prevent armed conflict while allowing countries greater leeway to address urgent economic and social priorities at home."

If this is the kind of world in which we will most likely operate in the years ahead, then it will be useful for South Africa and China, as well as the other BRICS member countries, to develop a set of principles to guide their strategic engagement with each other and with the rest of the world. Such guiding principles could include the following objectives for BRICS:

- Firstly, to promote new patterns of economic development, trade and investment among its member states and among countries of the Global South;
- Secondly, to promote the building of a fairer world political and economic system;
- Thirdly, to promote African economic development specifically in order to improve the prospects and living standards of Africa's people;
- Fourthly, to promote international cooperation to reduce global warming, climate change and extreme weather events;
- Fifthly, to promote international cooperation in order to improve global health;
- Sixthly, to promote the peaceful resolution of disputes and the avoidance of war; and
- Seventhly, to work within the rules of the United Nations system to advance these objectives, while working to reform the United Nations system so that it can become more inclusive and representative of all humanity.

I hope that the issues that have been discussed in this address today have helped to shed some light, and possibly stimulate some ideas, on strategies for advancing positive cooperation between South Africa and China, as well as amongst BRICS member states, in the context of a sometimes challenging and complicated global environment.

I thank-you very much for the opportunity to address this important gathering. I hope that some of the ideas and suggestions that I have made in today's speech will provide food for thought for those present and will plant some seeds that may one day flourish to the mutual benefit of people in China, South Africa, Africa and the world more broadly.

Finally, I would like to wish the Bank of China and the University of Witwatersrand all the best as you take forward your plans for increased collaboration and co-operation.

Annexures

Fig. 1 China Growth Rate vs OECD Average (Source: World Development Indicators)

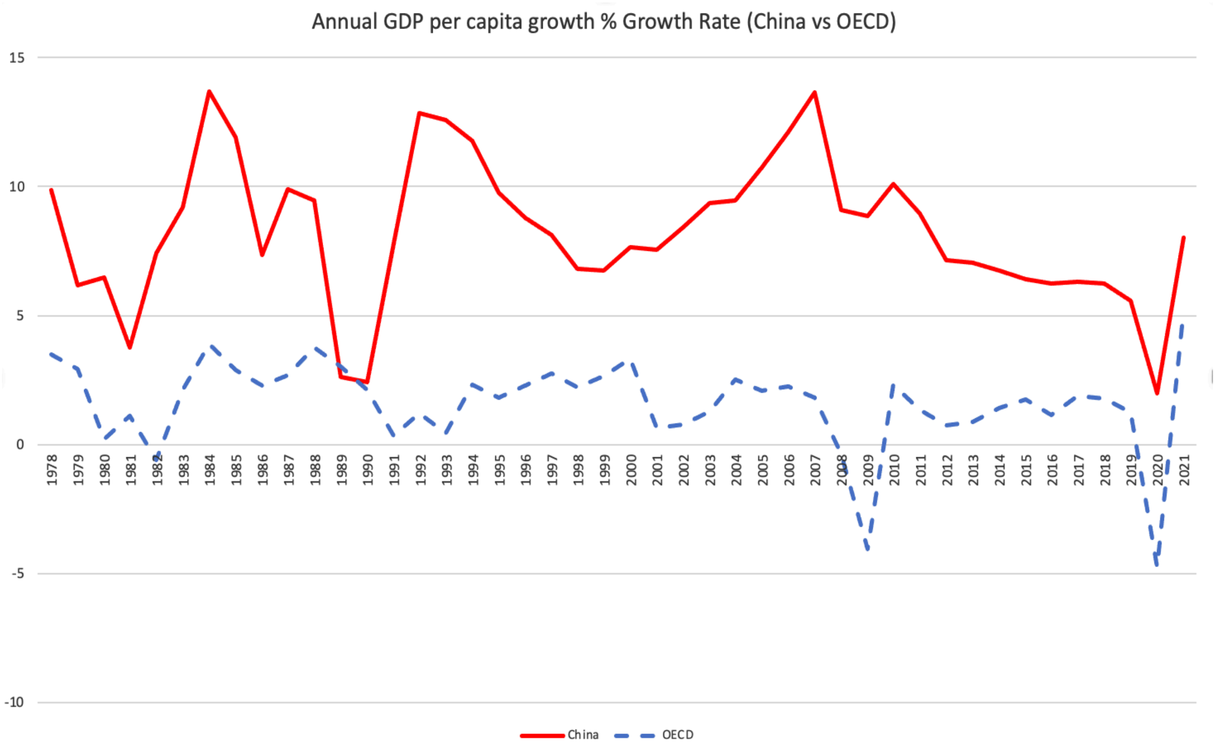


Fig.2 Exports from South Africa (Source: Trading Economics)

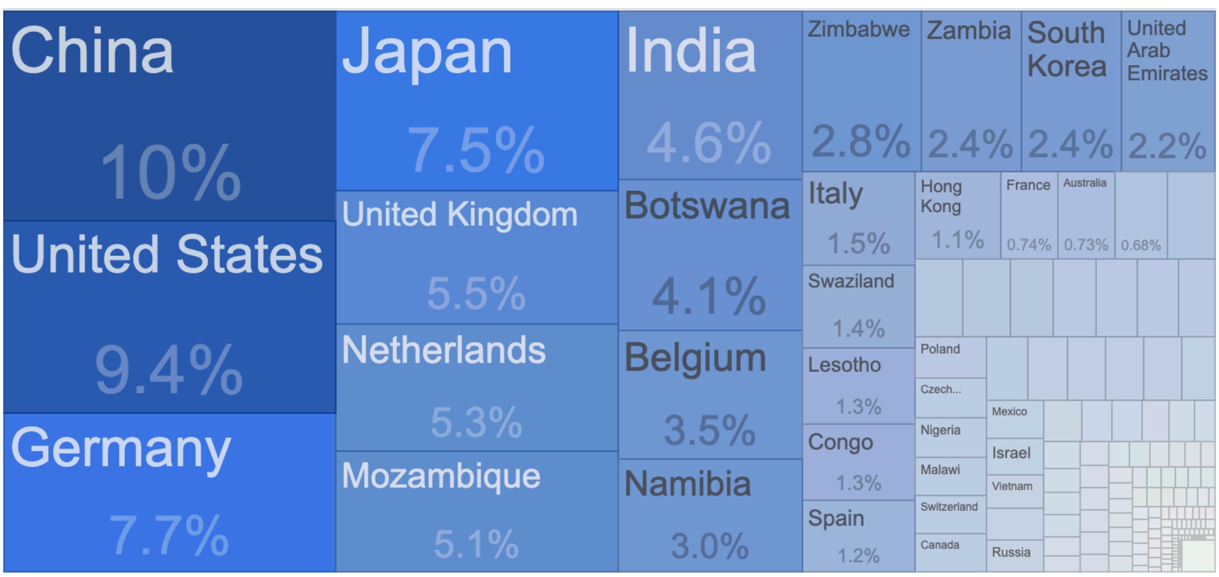


Fig. 3 Imports into South Africa (Source: Trading Economics)

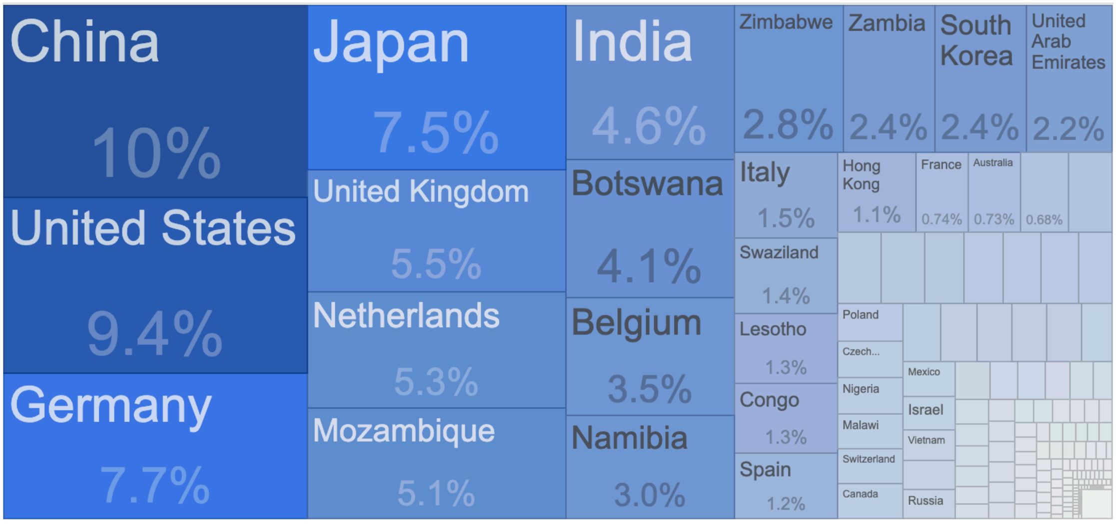
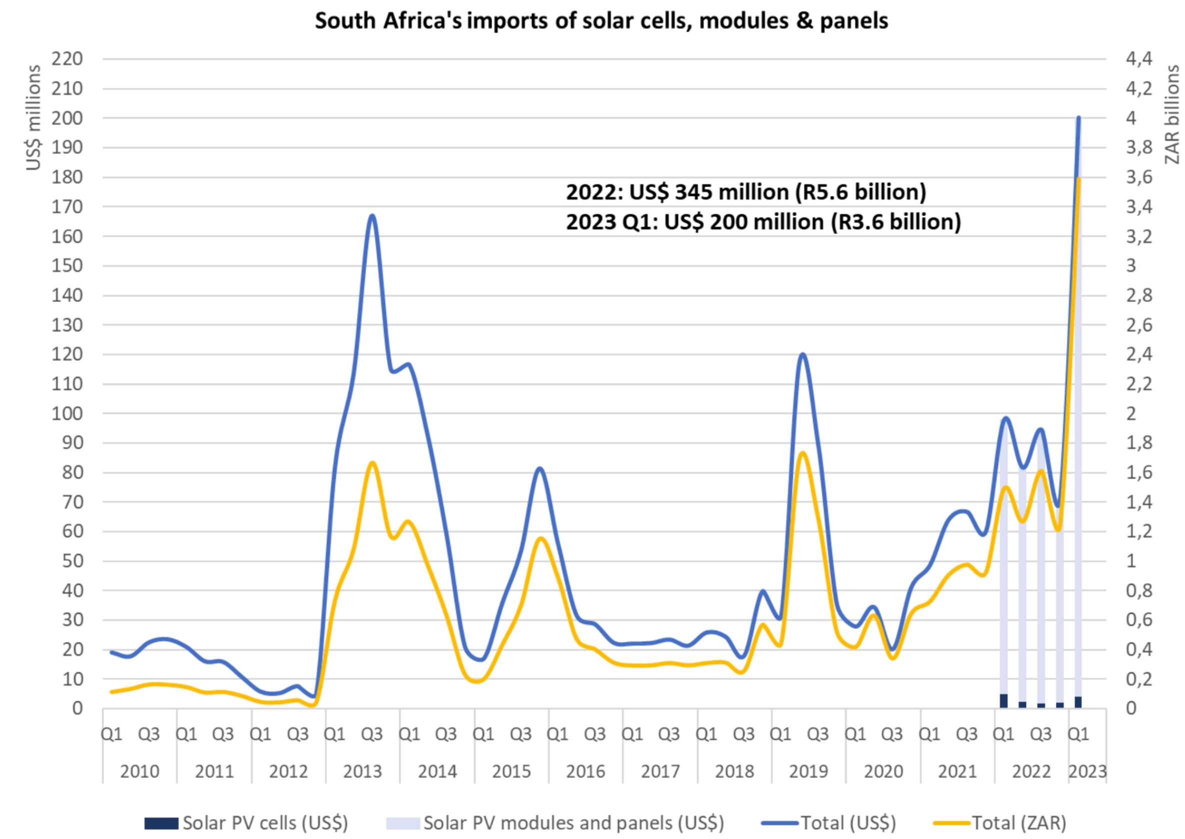


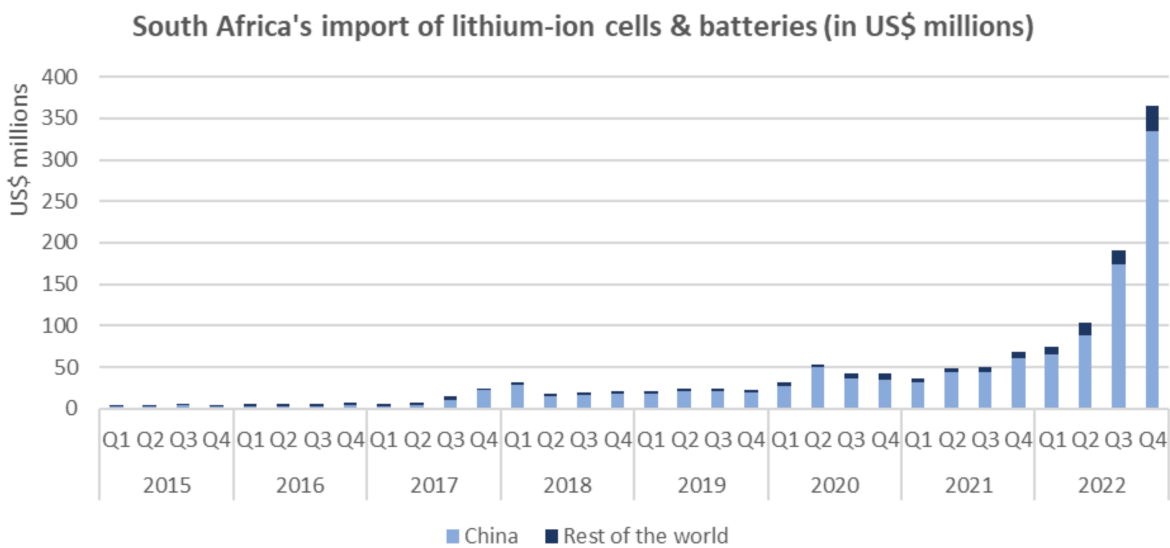
Fig. 4 South Africa National Electricity Grid Development Plan (Source Eskom)

Fig. 5 Solar panel imports into South Africa (Source: Trade Industry Policy Strategies)



Source: Montmasson-Clair, based on data from TradeMap and Quantec

Fig. 6 Battery imports into South Africa (Source: Trade Industry Policy Strategies)



Source: Montmasson-Clair, based on TradeMap data

Fig. 7 Global access to electricity by country (Source: World Bank, Our World in Data)