



AN EMERGING NEW WORLD ORDER

How the Rise of Developing Economies—Exemplified By BRICS—
Is Changing the Old Way of Doing Business

By Pravin Gordhan

The Great Recession heralded the beginning of a new global era. On the one hand, it has exposed fault lines in the global economy, particularly in the advanced economies. On the other hand, the recovery from the recession is being propelled by the dynamism and extraordinary growth in the leading developing countries. Even the ‘forgotten’ continent of Africa is now both a new frontier of economic and other opportunities and host to some of the fastest-growing economies in the world.

The concept and the emerging reality of BRICS—Brazil, Russia, India, China, and South Africa—as a geopolitical and economic grouping of nations introduces a new dynamic to global governance and economic relations. BRICS is now part of the vocabulary used to describe the shift in economic power southward and eastward. As the leaders of the BRICS nations stated in the Sanya Declaration, adopted at the April 2011 meeting in China which formally marked South Africa’s entry to the group: “We share the view that the world is undergoing far-reaching, complex and profound changes, marked by the strengthening of multi-polarity, economic globalization and increasing interdependence.”

The BRICS nations not only reflect the shifting trends of the new global economic order but are increasingly shaping it. In the Sanya Declaration, BRICS, under the banner, “Broad Vision, Shared Prosperity,” indicated its members’ common aspiration:

It is the overarching objective and strong shared desire for peace, security, development and cooperation that brought together BRICS countries with a total population of nearly 3 billion from different continents. BRICS aims at contributing significantly to the development of humanity and establishing a more equitable and fair world.

The 21st century should be marked by peace, harmony, cooperation and scientific development.

◁ A worker polishes a platinum bar at an Impala Platinum Holdings Ltd. refinery, Springs, South Africa, Oct. 24, 2007. Jessica Dimmock/VII Network/Corbis

The reality is that the BRICS nations represent 42 percent of the world's population and 18 percent of its GDP. China's economy, after three decades of 10 percent expansion, massive foreign investment, and now domestic market-led growth has lifted some four hundred million people out of poverty and is creating a middle class at a phenomenal rate. It has seen urbanization approaching seventeen million people a year.

China's economy has grown ninety times since Deng Xiaoping began the liberalization in 1978, paving the way for China's integration into the global economy. China has surpassed Japan as the world's second largest economy, after the United States.

India, with its established democracy and massive rural poverty, has succeeded in creating an economic miracle led by technology and services that has laid the foundation for long-term sustainable growth and put India at the forefront of BRICS.

Brazil has come into its own as the leading Latin American economy. It is finding large-scale synergy with China in joint ventures based on an exchange of natural resources and oil for low-cost manufactured goods.

Russia likewise possesses a formidable economy, not least due to its role as a leading oil and gas producer. Its potential as a trade partner and expertise in science and technology make Russia a valuable ally for fellow BRICS members.

World Watersheds

The shift in global trends is on such a scale that it is almost impossible to perceive the full impact of the changes as they happen. The present transition to a new global order has been developing for some time, but in the last two decades there have been some significant milestones:

- The collapse of the Berlin Wall in 1989 in response to democracy uprisings in Eastern Europe speeded the end of the Soviet system and marked the beginning of a new order. At that time, it was by no means clear what would replace the Soviet system, or whether democracy would be sustainable.
- There was a watershed moment in 1999 when a coalition of environmentalists, trade unionists, and students began a wave of antiglobalization protests at the annual World Trade Organization meeting in Seattle.
- The following year similar protests took place at the World Economic Forum in Davos, at the meetings of the World Bank and International Monetary Fund (IMF) in Washington, at another World Bank meeting in Prague, and at the Group of Eight (G-8) summit in Montreal.
- The year 2000 proved to be momentous, and not merely because it launched a new millennium. The United Nations adopted the Millennium Development

Goals, which sought to halve global poverty by 2015 by achieving clearly defined objectives. The Goals have particular relevance for Africa.

- In 2001, the World Economic Forum for the first time invited trade unionists and major non-governmental organizations, such as Oxfam and Save the Children, to its annual meeting in Davos in a bid to accommodate some of those who had been protesting in Seattle and elsewhere.
- By the time major antiglobalization protests erupted again at the 2001 G-8 summit in Genoa, it was clear that the group was in trouble. A year before, it had begun the process of bringing five developing nations to the G-8 summit in Okinawa as non-member participants in order to discuss antipoverty measures and climate change.
- In 2008, the world's financial system was shaken to the core with a global financial crisis. Soon followed the Great Recession, which saw the gap between so-called emerging and industrialized nations widening. The September 11, 2001, terrorist attacks had marked the point at which developing markets began to grow faster than the industrialized G-8 countries.
- By 2008, the Group of Twenty (G-20), a new, expanded grouping of leading economies, had its first meeting in Washington to discuss financial markets and the global economy; it rapidly developed into a body that could play a bigger role in addressing a broader set of issues.
- China has experienced a phenomenal rise as an economic power. That this change has been more gradual than the other milestone events of the past quarter century in no way diminishes the profound impact it is having on the global order.
- In 2011, the democracy uprisings in the Arab world, similar to the revolutions in Eastern Europe two decades earlier, represent another important geopolitical shift. The recent woes of the euro suggest there will be further upheavals in currency markets as well as fresh tremors in the global financial system.

These developments, among many others, signal that a global 'tipping point' has probably been reached, that the world is living through an exciting and uncertain transition to a new era. Historic shifts require that the mindsets and paradigms through which we analyze and understand this world, as well as plan and act within it, must be "reloaded" to adjust to new realities. I was most interested to find that, as one fellow panelist at the *Economist's* Emerging Markets Summit in London last year said, clearly the future is East and South. Western business people and investors need to "reload the mindset," as he put it. In other words, as you reformat the disk or memory stick of your computer, you have to reformat

the investor mindset. In reformatting, you must begin to develop and embrace a different world view—one that is coming from a different space and different directions: the East and the South.

If we want to do business in the future, the panelist was saying, appreciating this change in world view will be crucial to enabling businesses and investors to understand the new world in which they are required to operate. Indeed, it is clear that business people have already started using their minds—and their feet—to move in that direction. I think we are talking about a shift from a decades-old tradition to a new way of doing things.

The same applies to the approach and perceptions of Africa. I visited the United Kingdom in March 2010 as part of the delegation of South African President Jacob Zuma on his state visit. Interactions with business leaders, analysts, and investors there suggested that the mood was still quite uncertain about Africa and South Africa. Six months later, I traveled to Britain with a delegation led by Deputy President Kgalema Motlanthe. The mood had changed quite fundamentally. Part of it was surprise over how in 2010 South Africa had successfully hosted one of the largest sporting events, the FIFA World Cup, which resulted in a very different and positive experience and perception of the country.

The purpose and potential of BRICS

The Sanya Declaration reflects a distinct ethos and orientation by the BRICS nations in their approach to various issues, for instance:

- “The overarching objective and strong shared desire for peace, security, development and cooperation.”
- “Contributing to world peace, security and stability, boosting global economic growth, enhancing multilateralism and promoting greater democracy in international relations.”
- “We are determined to continue strengthening the BRICS partnership for common development and advance BRICS cooperation in a gradual and pragmatic manner, reflecting the principles of openness, solidarity and mutual assistance. We reiterate that such cooperation is inclusive and non-confrontational.”

Equally, the wide-ranging initiatives and issues that BRICS is and will be addressing in the year ahead are also suggestive of the kind of influence that the member nations could have on global dynamics if these initiatives are backed by serious intent and consensus:

- “In a spirit of mutual respect and collective decision making, global economic governance should be strengthened, democracy in international relations should be promoted, and the voice of emerging and developing countries in international affairs should be enhanced.”
- “Our increased cooperation in economic, finance and trade matters, which will contribute to the long-term steady, sound and balanced growth of the world economy.”
- “We support the Group of Twenty (G-20) in playing a bigger role in global economic governance as the premier forum for international economic cooperation.”
- “Recognizing that the international financial crisis has exposed the inadequacies and deficiencies of the existing international monetary and financial system, we support the reform and improvement of the international monetary system, with a broad-based international reserve currency system providing stability and certainty.”
- “We call for more attention to the risks of massive cross-border capital flows now faced by the emerging economies.”
- “We call for further international financial regulatory oversight and reform, strengthening policy coordination and financial regulation and supervision cooperation, and promoting the sound development of global financial markets and banking systems.”
- “Climate change is one of the global threats challenging the livelihood of communities and countries. China, Brazil, Russia and India appreciate and support South Africa’s hosting of [the upcoming climate change summit].”
- “We support the development and use of renewable energy resources. We recognize the important role of renewable energy as a means to address climate change. We are convinced of the importance of cooperation and information exchange in the field of development of renewable energy resources.”
- “We underscore our firm commitment to strengthen dialogue and cooperation in the fields of social protection, decent work, gender equality, youth, and public health, including the fight against HIV/AIDS.”
- “We support infrastructure development in Africa and its industrialization within framework of the New Partnership for Africa’s Development (NEPAD).”
- “We have agreed to continue further expanding and deepening economic, trade and investment cooperation among our countries. We encourage all countries to refrain from resorting to protectionist measures.”

BRICS has taken important initiatives in the spirit of the Sanya Declaration. The member nations have decided in principle to establish mutual credit lines denominated in local currencies rather than U.S. dollars, a move that is seen to promote cooperation between countries over a wide range of projects and has proven able to facilitate trade and investment between these countries.

Such arrangements are already working to the mutual benefit of China and Brazil, deepening China's relationship with Brazil's state-owned oil company, Petrobras. Recently, China Development Bank Chairman Chen Yuan has said that the bank is prepared to lend up to \$1.5 billion in local currency to fellow BRICS countries, particularly for oil and gas projects.

In May, after the resignation of Dominique Strauss-Kahn, BRICS called on the IMF to appoint a new director on the basis of merit and transparency, not according to a particular region. The new approach to the selection process for such appointments must reflect the shift in global economic power. It is the first time that a group of developing nations has had the clout to put effective pressure on a leading international organization to select a chief executive who reflects the importance of emerging markets in the global economy.

The IMF is an important institution and I think there are also historical issues at stake, whether the institution continues to operate as it always has done, or whether the twenty-first century has indeed arrived for everyone concerned.

BRICS and Africa

The rising power of the BRICS lobby holds potentially far-reaching consequences for the relationship between China and Africa in general and is likely to have a profound impact on China's rapidly growing trade and investment relationship with South Africa.

There are some similarities between the rise of Africa now as a priority investment destination and that of China three decades ago, when that country began opening its economy to global forces. Africa is set to achieve growth levels that will empower its nearly one billion citizens and enable the continent to elevate millions from poverty.

The key elements in China's economic miracle have been an integrated market, special economic zones with incentives for foreign investors, and widespread reform of the agricultural system, which has freed up more labor for economic development. China's lifting of four hundred million people out of poverty in the space of three decades is unprecedented.

This is the question facing Africa's fifty-four countries: how can we rapidly realize the economic promise of the continent and do so in a way in which hundreds

of millions of poor and marginalized people have jobs, move out of poverty, and fulfill their potential?

As African nations tackle these issues, the BRICS formation offers interesting trajectories for an alternative economic model that ensures job-creating growth and different forms of inclusivity and equity. But the African miracle will be distinct and will need to be based on home grown formulas tailored to the continent's conditions, strengths, and specific needs. The key will lie in unlocking the huge entrepreneurial potential of the continent.

Africa's greatest disadvantage among advanced economies is probably in the area of perceptions. The huge deficit between the reality of Africa and the mainstream media's obsession with negative stereotypes of conflict, famine, and failed states undermines the continent's potential. The mainstream media have dominated the narrative for the past four decades, and through selective—rather than inaccurate—reporting have reinforced Africa's negative trends at the expense of its potential.

There are many reasons why Africa's potential as an investment destination should be taken more seriously:

- In the past few decades, Africa has made significant strides toward democratic governance, transparent economic systems, and elimination of some of the crippling bureaucratic barriers to trade and investment. Although Africa still falls far short of constituting an integrated market, the trends toward integration and greater transparency are undeniable.
- The inclusion of South Africa as the fifth member of the BRICS group and its seat on the UN Security Council for 2011–12 ensure that Africa has a voice in all key global forums and will accelerate reform of the UN and global financial, developmental, and trade architecture.
- The potential of Africa as an investment destination has long been recognized and supported, both in terms of investment and soft loans by China and with strategic investments from South Africa and other rising economies such as India and Turkey.
- There is ample evidence of Africa's potential to leap-frog constraints, such as with the revolution in mobile telephone technology. The next breakthrough will need to come in the field of electricity provision. Africa's hydroelectric potential could play a key role.
- In a world in which there is growing consensus that future wars will be fought over food and water resources—rather than territory or ideology—Africa enjoys the advantage of huge water reserves and vast tracts of arable land. It is also rich in largely unexploited mineral and natural resources.

- Africa, with nearly one billion people, represents the world's third-largest market after China (1.3 billion) and India (1.2 billion).
- South Africa played a key part in rescuing the 2009 climate change summit in Copenhagen. There was enough progress at Cancun in 2010 to ensure that the next critical session, in Durban in November, could broker the breakthrough that the world so badly needs.

South Africa's Role

For President Zuma, South Africa's participation in BRICS is not a question of boxing above its weight. It is basic logic that a continent central to sustainable global growth should be included in a grouping that includes the major developing markets in Asia and Latin America. As the last frontier of the global economy and its third-largest market, the continent must have its say in the renovation of the international economic and political architecture, the establishment of a more equitable and sustainable trade dispensation, and agreement on climate change to ensure the future of the planet for all its inhabitants.

All the BRICS nations are increasing trade with—and investment in—Sub-Saharan Africa as an indication of their interest in its growing consumer market and resources. President Zuma has already overseen a rapid deepening of South Africa's relationship with China. He has also stressed that South Africa needs to balance its trade with China to reduce the heavy deficit in China's favor. He foresaw cooperation between the two countries in reforming multilateral institutions.

South Africa's economy is only slightly larger than that of Egypt or Nigeria, two other leading economic forces on the continent. However, South Africa has a more diversified economy, and highly developed financial institutions, infrastructure, and expertise that are more entrenched. South Africa's position as the only G-20 member from Africa facilitated the continent's entry into BRICS.

South Africa is both a benefactor of better access to BRICS markets and, at the same time, a competitor or joint venture partner in the development of Africa. Africa grew at 4.5–5 percent last year and is expected to reach 5.5–5.7 percent this year. South Africa is set for a more modest 4 percent.

Aware of the massive savings pool that China and other BRICS nations are sitting on, President Zuma is inviting investors from BRICS countries to take up the major infrastructure and manufacturing opportunities in South Africa and on the African continent. Both the private and public sectors of the country stand to be leading beneficiaries of this offer.

It is no coincidence that since the beginning of 2010, President Zuma has made his first state visits to India, Russia, and China. In July 2010, Brazil's former president,

Luiz Inácio Lula da Silva, paid a state visit to South Africa following a working visit by President Zuma earlier in the year. President Zuma lost no time in meeting the new Brazilian president, Dilma Rousseff, at the BRICS summit in China last April.

Two-way trade between China and South Africa reached R119.7 billion (\$17.9 billion) in 2009, enabling China to surpass the U.S. as South Africa's largest trading partner, according to South Africa's Department of Trade and Industry. Its statistics also show that South Africa's exports to India reached R5 billion (\$746 million) in 2010, while imports totalled R2 billion (\$298 million), in favor of South Africa. The fundamental shift in South Africa's trading patterns was also clear from statements made by President Zuma during and after his state visit to China last August. South Africa, he said, would look to China for investment in meeting its infrastructure projects, including transport systems, freight transport, renewable energy projects, and mining. The agricultural sector and car manufacturing were also potential recipients of Chinese investment.

The stage has been set for accelerated investment from both the BRICS and advanced economies. In 2007, the Industrial and Commercial Bank of China bought a 20 percent stake in South Africa's Standard Bank for R36 billion (\$5.4 billion), making it China's largest foreign investment to date. In 2009, China announced that the African headquarters of the China-Africa Development Fund would be in Johannesburg.

China has more recently invested in a South African platinum mine and a cement factory. One of the tangible agreements emerging from the state visit to China in August 2010 was the intention to build a high-speed rail link between Durban and Johannesburg.

The consistent message that President Zuma conveyed during his state visits to China and Russia was that South Africa wanted to learn from both countries how to ensure high levels of beneficiation of South African mineral wealth to help the country speed up development, create more jobs, and roll back poverty.

This approach is in line with South Africa's recently adopted economic road map—known as the New Growth Path—which lays much emphasis on local input and joint ventures to create jobs and boost manufacturing and the beneficiation of minerals and natural resources.

The growing relationship with China is seen as a means of both boosting South Africa's share of global trade and accelerating the development of the African continent. With its world-class financial sector, deep experience in African markets, and extensive corporate footprint on the African continent, South Africa is well placed to lead an African miracle.

As the pace of regional integration within the Southern African Development Community (SADC) quickens—a goal that President Zuma has made a top

priority—the economic rewards for South Africa will come in the form of increased foreign direct investment and expanding trade relations. The evolving free trade agreement between the overlapping regional economic communities of the SADC, the Common Market of East and Southern Africa (COMESA), and the East African Community (EAC) is likely to give further impetus to this process.

South Africa is thinking BRICS. It is expanding flight connections and marketing tourism to the BRICS nations as well as tailoring investment opportunities and conditions to meet the requirements of its new strategic partners. It is also looking to the BRICS countries to assist in training South African diplomats. South Africa's robust private sector also stands to benefit from these opportunities. Standard Bank was ahead of the game when they sold the 20 percent stake to the Industrial and Commercial Bank of China.

BRICS, with Africa now represented in the grouping, will deepen South-South cooperation and have the potential to change the rules of international finance and trade and give a voice to developing countries on a whole range of issues ranging from climate change to development. But there is a danger that BRICS could lose faith in the WTO. Brazil, India, and China have criticized the WTO for failing to scrap the onerous subsidies of the developed nations in the agricultural industry. Russia is not a member of the WTO.

It will take some time for South Africa to achieve a more sustainable trade balance with China by getting the Chinese engaged in more joint ventures, manufacturing, and beneficiation in line with the New Growth Path that seeks more leverage from foreign investors. Despite China's position as South Africa's biggest two-way trade partner based on South African exports of mineral resources, the European Union remains South Africa's most important export market and responsible for 40 percent of foreign investment. While the U.S. is set to remain by far the most powerful global economy in the next two decades, the changes now underway and symbolized by the BRICS group will prepare the ground for profound changes in the global order in the next twenty to twenty-five years.

Challenges Ahead

Membership in BRICS has put South Africa in the league of the world's fastest-growing and potentially most influential group of nations. And that puts South Africa and the African continent at the cutting edge of the global changes taking place. One of the urgent challenges is global warming. With South Africa serving its second term on the UN Security Council and President Zuma's appointment as co-chair of the Durban climate change summit, the country is well placed to help forge a grand trade-off between the industrialized and developing worlds.

The Durban meeting, formally known as the 17th Convention of the Parties of the UN Framework Convention on Climate Change, or COP 17-CMP 7, stands to make major progress by establishing either a reformed global market mechanism to regulate emissions or by extending the current one to include the U.S. and China.

China, because of necessity and its history of pragmatic adjustment, could become the world leader in developing cleaner and more sustainable technologies that will supplement and ultimately replace fossil fuels as the world's primary source of energy. South Africa is well able to contribute to this global priority.

After hosting the World Summit on Sustainable Development in 2002 and more recently committing to the Clean Development Mechanism, South Africa has vowed to reach its targets on reducing emissions and carbon management. But in a country with high unemployment and underdevelopment, we must continually weigh the dictates of environmental management with those of developmental priorities.

In global governance, the 'tipping point' could well be with us. South Africa is privileged to be part of these historic trends. Like all previous eras, this one will have its own challenges. Balancing national self-interest with genuine global interest will be one of them. The BRICS nations will be key players in the forging of a more cooperative, interdependent, prosperous, sustainable, and equitable world.