



# The BRICs and South Africa as the Gateway to Africa

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## The Gateway to Africa

A new Scramble has hit the African continent. This Scramble has many drivers: the 1978 Deng Xiao Ping liberalizations in China; the 1989 collapse of the Soviet empire; the ICT revolution; the ease of global communications. The underlying dynamic is the end of the bipolar world of the Cold War and its replacement with multipolarity. According to HSBC (2011), in 2050 China will be the world's largest economy, with India number 3 and Brazil number 7. Russia will be 15th (below its old rival, Turkey). South Africa may be ranked 30th, yet has been invited to join the exclusive (BRIC) club. One has to ask, why? It is sad to note how low South Africa is assessed to be—currently it is around number 24 in the world; the reason for the fall is that the HSBC model includes population growth, and it is in this domain that South Africa is a loser, being constrained by the impact of HIV/AIDS on its life expectancy.

The original four BRIC nations include the factory of the world (China), the garden of the world (Brazil), the gas station of the world (Russia), and the back office of the world (India). South Africa comes to the club both as jeweller of the world and as gatekeeper. China, Brazil, and Russia all have considerable expertise in mining exploration, extraction, and processing.

In terms of demographics Brazil and Russia are dwarfed by the Asian giants, whilst South Africa's population is even smaller, standing midway between that of Brazil's Sao Paulo state and India's Gujarat. It is tiny. Nonetheless China, followed by Russia, invited South Africa to join the BRIC club, which it did in Beijing in April 2011.

Up to 2006 South Africa was the largest source of FDI to the African continent, which came about through the deliberate policy of the SA Reserve Bank of permitting these levels of investment whilst restricting outward flows to the rest of the world. Curiously, South Africa was also the largest recipient of inward foreign direct investment (FDI) on the continent, which, with the exception of the automotive industry, was channeled into merger and acquisition activity. Today China leads as Africa's main source of FDI, with indications that the USA has now re-focused attention on Africa.

This paper will seek to understand what it is, despite its small size, that makes South Africa so attractive to the BRICs. If indeed it is primarily the gatekeeper role, then South Africa must think far into the future, much as the East Asian Tigers are wont to do, and think through a long-term strategy. It will be argued that the country has limited

room for manoeuvre, and that joining the Club, as the minor player, may prove to have been an inspired decision.

Kaplan (1983) noted that South Africa was then already unique among emerging economies in its role as an exporter of FDI. This is a surprising finding given the popular view that anti-apartheid sanctions had hermetically sealed off the country. This was never the case—Anglo American Corporation, for example, already invested in Brazil from 1978; and according to Kaplan Anglo was the largest source of FDI to the USA in the early 1980s. The openness that the South African minerals-energy complex entailed (Fine and Rustomjee, 1996) meant that sanctions were always permeable. The West wanted and needed gold, platinum, and chrome.

From 1992 onward, main board players listed on the Johannesburg Stock Exchange began to register secondary listings abroad, whilst others expanded into global players through mergers and acquisitions (South African Breweries) or by dint of being first to market (MTN). South Africa Incorporated spread over the Limpopo, and then across the world, supported by a home base of expertise in project management, logistics, scientific and technical services, legal and financial services, and research and development. This was particularly so in mining project development involving companies with today's mantles of AngloGold Ashanti and BHP Billiton. Newcomers include African Rainbow Minerals.

Another important flow emerged, this being that of people. Migration from South Africa's rural areas to its cities accelerated, entailing a reversal of the forced removals of apartheid, and a tidal flood of people resumed southwards across the Limpopo, not only as economic refugees, but also as migrant students. The country retained its position as the leading scientific nation in Africa, hosting an innovation hub in Gauteng Province and providing tertiary education at low cost to some 55 000 African students from across the continent. In terms of science and innovation capacity, only Tunisia comes close.

But larger forces are now in play: the country is subject to encirclement as China and India squeeze from the east, Brazil from the west, and Russia from the north. Indeed Russia, despite its own financial strains, was in 2006 the largest source of FDI to the developing world (DBRE, 2008). The squeeze is far from uniform: China and India will contest for power over the Indian Ocean; Brazil, in part to protect its offshore oilfields, is expanding its navy across the

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South Atlantic, while Russia remains a formidable military power and must adjust its warm water strategy to take account of the new realities on its southern marches.

It will be argued that South Africa can continue as the Gateway to Africa provided it enters into a strategic alliance with Brazil in the larger context of a SADC-MERCOSUR merger anchored on concrete projects. The Gateway project will unfold alongside the construction of the new developmental state as envisaged in the New Growth Path (EDD, 2010). The South African government is critically aware of the importance of the Gateway, giving special emphasis to this in the most recent amendments to tax law (Treasury, 2011). The two are interdependent, and stand and fall together. The proposed African Free Trade Area (AFTA) will also play a role in cementing such an alliance (Business Day, 2011. <http://www.businessday.co.za/articles/Content.aspx?id=145703>).

### From OAU to African Union

European colonization of Africa had largely ended by the mid-1960s, major exceptions being Angola, South West Africa, South Africa, Rhodesia, and Mozambique. To foster pan-Africanism and put an end to settler rule, African states in 1963 founded the Organization of African Unity, OAU. Portugal, economically adrift, in 1974 birthed the Carnation Revolution that led to the independence of Angola and Mozambique. As quick as was Brazil to recognize the MPLA in Luanda (1975), so too was South Africa to fill the power vacuum through invasion of Angola (1976), and in backing its proxy RENAMO in Mozambique.

Brazil used the moment to expand its economic influence across West Africa, China built the Tazara railway between Dar es Salaam and Kapiri Mposhi in Zambia, while Russia armed the continent from Luxor to Lobito. No matter what South Africa threw into the fray, the tide was unstoppable. Rhodesia became Zimbabwe. Then the Berlin Wall was toppled, and South West Africa became Namibia. Finally Mandela walked free, sanctions ended, and a new democratic South Africa was born. Under ANC leadership the economy began to open up and grow.

The 1990s was the period of readjustment: the Soviet Union imploded and the Russian Federation emerged with its own form of market capitalism; India deregulated; Brazil embarked on structural adjustment under the Plano Real; China opened up to foreign investors. The stage was set for new possibilities of growth for the BRIC countries.

South Africa continued on the path of liberalization of its economy and undertook limited structural adjustment through the 1996 Growth, Redistribution and Employment strategy. With its intimate knowledge of mining and doing business in Africa, Pretoria used its now high moral standing on the African and global stage to assume a leadership role in the Non-Aligned Movement, hosting its 1998 summit. Deputy President Thabo Mbeki next turned his attention to Africa, proclaiming the vision of an 'African Century' and launching the New Partnership for Africa's Development, which undertook to ensure good governance as the guarantor of progress. In 2000, recognizing that colonialism had ended, the OAU was transmuted into the African Union.

The African Union set out to emulate the then perceived successes of the European Union, sketching out a vision of integration, free trade, a single currency, and a Pan-African Parliament (established in 2004). The vision is bold: after all it took Europe six decades to 'unite,' and this after two

disastrous World Wars. The European Union may be read as the device to avoid another European conflagration. Its beginnings as the European Coal and Steel Federation linking France, West Germany, Italy, Netherlands, Belgium, and Luxembourg was the means to give substance to that intent.

The African Union until 2011 had no such supranational project. This is now emerging as AFTA, which will open up 26 states for the free flow of goods. Note, however, that a free trade area is not a customs union, and that there is no comparison of the scale of the African venture with that of the European Corporate Sustainability Framework (ECSF) that involved a 'mere' six countries with well-developed state bureaucracies. But there are functioning regional projects such as the CFA Franc, and the Southern African Power Pool (SAPP) that suggest how one might proceed around a concrete project.

Another confounding factor is that the continent is less stable in 2011 than was Western Europe in the 1950s. Whilst African inter-state wars are the exception (in part a triumph of the OAU?), intra-state wars are close to the rule, with secessionist movements having festered in up to half of Africa's 54 states. Regrettably, the military remains one of the main institutions of modernity and social mobility. The effect on state formation, stability, and development has been disastrous (Mbeki, 2009).

### Brazil in Africa

On historic grounds, Brazil's embrace of Africa is hardly surprising. After all, the Angolan port of Luanda disgorged its slave cargo westward to Brazil, with perhaps one half of Africa's captives embarking through that route. There are also political, geological, and ecological similarities between Brazil and South Africa.

Both countries were European colonies; both kept slaves; both have enormous mineral wealth; both descended into authoritarian rule in the 1960s. Both have vast biodiversity; they have skills in agriculture, large dam construction, mining and extraction. Brazil's earliest mining boom was in diamonds. Today it is iron. There is experience of inward industrialization in both, and they exhibit similar technological competences as in synthetic fuel technologies (Petrobras for Brazil and SASOL for South Africa). Other similarities include extremely high income inequality, and internal regional disparities.

As to the differences, the most obvious are language and geographic size. Virtually all Brazilians speak Portuguese, whereas South Africa lacks a lingua franca and has gone so far as to recognize eleven languages in its constitution. The language factor is obviously important in enabling a fit between Brazil and the former Portuguese colonies in Africa. Brazil is seven times larger than South Africa with a population nearly 4.5 times greater, and a coastline that meanders from 10 degrees north to 30 degrees south. South Africa straddles the southern tip of Africa from the Tropic of Capricorn down to the Cape of Good Hope.

Other differences are to be found in the economic sphere. The first is that macro-economic balance has a better record in South Africa than Brazil. The former experienced high inflation; the latter hyperinflation. The former was cushioned by precious metal exports; the latter had not yet seen its exports take off to the same extent. The second difference is the business environment itself, as measured by the 'ease of doing business' index (World Bank, 2009). South Africa at rank 34 is second in Africa to small Mauritius at rank 17; Brazil stands at position 129.

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In education by contrast, Brazil under its military dictatorship expanded higher education, especially science and engineering; at that time South Africa was excluding its majority group from science-based careers. While an ethnic African middle class grew in the apartheid years, it was denied broad economic participation and the chance to develop a technocratic elite.

In Brazil the continued economic failures of the military period eventually forced a return to civilian rule. For South Africa, financial sanctions, the rise of real wages (Van den Berg, 1989), the moral, social, and financial cost of foreign wars, and domestic insurgency forced the adoption of democratic governance.

Both countries are indebted to the United States for their technological and human capital formation. During its dictatorship Brazil, with US assistance, developed fuel, medical, and aerospace technologies, and sent hundreds of its youth to study in that country. South Africa in the 1980s contracted US Fluor Corporation for the tenfold expansion of SASOL's coal to liquid fuel capacity, and in the 1980s with USAID funding thousands of black South Africans received postgraduate training at top US universities through the Education Opportunities Council. The graduates of that programme came home, eventually becoming cabinet ministers, directors-general and CEOs.

Today both countries have weathered the 2008 financial meltdown with flair, with growth close to previous levels. They maintain leadership positions in their respective politico-economic blocs, Brazil in MERCOSUR and South Africa in the SADC.

The major change is Brazil's economic role in Africa as its domestic trans-national corporations have flooded across the South Atlantic. Already in 1972 the Brazilian military government dispatched Foreign Minister Barbosa to test the readiness of Africa as an investment destination. From a slow start, trading relations developed across the continent (Forrest, 1982). Today it is Brazil's privatized iron and steel magnate Vale that makes the running in Mozambique and Angola, Gabon, Guinea, and Zambia. Construction company Odebrecht, already the largest private sector employer in Angola, and steelmaker CSN are opening other markets. Petrochemicals giant Petrobras, one of the fifty largest companies in the world, is active off the Angolan coast and in West Africa as well as in the Gulf of Mexico. Brazilian trade with Africa has increased eightfold in the last decade. The South Atlantic is becoming a Brazilian lake, the more so given the security required for the exploitation of Brazil's Tupi and Jupiter oilfields. Brazil's naval interests include a Naval Commission in Windhoek, Namibia, and the intended purchase of four submarines from France. The balance of power is in Brazil's favour, with long-term rival Argentina's political impasse holding it behind.

South African and Brazilian science and technology involve many areas of common interest, from nuclear engineering to satellite technology, catalysis, plant and animal science, and infectious diseases. It is obvious that Brazil's system of innovation is larger than South Africa's. For the moment, perhaps because of English language factors, South African scientists enjoys higher citation rates than their Brazilian peers. However, the expansion of the science workforce in Brazil is more effective than in South Africa, if the rate of PhD graduation is anything to go by. In exports both countries sell commodities involving little or codifiable intellectual property, major brand automobiles, and

smaller volumes of high technology. Brazil's Embraer civilian aircraft are highly successful (Hira and De Olivera, 2007); South Africa's attempt to become an exporter of military aircraft failed<sup>2</sup>. Even so, South Africa's Denel Dynamics is transferring missile technology to Brazil, working with companies Avibras, Opto Electronica, and Mectron<sup>3</sup>. One area that has received little attention is that of agricultural R&D. Brazil's Embrapa agriculture research agency and South Africa's Agriculture Research Council have much in common, but no history of collaboration. Embrapa is already active in Africa with an international office in Ghana. South Africa is lagging behind.

### Size matters

Confronted with the size of China and India, the declining importance of Russia (if HSBC is to be believed) notwithstanding, Brazil and South Africa face a common problem of how to increase their economic footprint. There are at least three ways for this to happen: ruthless competition, a close partnership between the two countries that brings their combined populations to around 280 million by 2050, or an even bigger arrangement linking SADC and MERCOSUR that pushes the envelope to 500 million. Strategic considerations, especially in the light of the AFTA discussions, suggest that the latter is most desirable.

What could such an alliance or merger offer, and how might it acquire concrete form? Though younger than the SADC(1982), MERCOSUR, founded in 1991, is a customs union of Argentina, Brazil, Paraguay, and Uruguay. The SADC is not a customs union as yet; the smaller and older SA Customs Union includes only South Africa, Namibia, Botswana, Lesotho, and Swaziland. MERCOSUR is massive, representing half of Latin America's wealth and 40 of its peoples. The SADC, if it cohered into a common market, would at current levels account for 40% of continental GDP and around 30% of its population (CIA, 2011), and the SADC now includes some of the fastest growing economies in the world—Mozambique, Zambia, Zimbabwe and Angola (Economist, 2011).

In a backcast exercise Kahn (2011) explored the scenario that SADC by 2030 had become a fully integrated politico-military entity under a constitution with an executive president and three major ministries concerned with security, wealth, and wellbeing. A common currency, the ZANCO, was in place, and the 2014 Millennium Development Goals had long been exceeded, with greenhouse gas emissions returned to year 2000 levels. (South Africa, it should be noted, in 2006 pumped out four times the carbon dioxide per capita compared with Brazil.) The sub-continent flourished from Cape to Congo. The backcast identified the Southern African Power Pool as the mechanism that would drive integration and that the concrete project to achieve this would be the 40 000 MW Ingwe III hydro-electric scheme in the Democratic Republic of Congo.

Two unforeseen events with geopolitical fallout occurred subsequent to the crafting of the backcast: the Arab Spring, and the Japanese tsunami and resultant Fukushima meltdown. Both events highlight the precarious nature of global energy security. The Arab Spring pushed up oil prices

<sup>2</sup><http://www.armsdeal-vpo.co.za/articles10/doubt.html>

<sup>3</sup>[http://www.defensenews.com/osd\\_story.php?sh=VSDL&i=4043462](http://www.defensenews.com/osd_story.php?sh=VSDL&i=4043462)

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by \$40 a barrel; Fukushima terminated Germany's nuclear programme. The quest for clean and reliable alternatives has intensified. Ingwe III represents the energy output of 20 nuclear reactors.

How to move from backcast to current reality? Ingwe III will involve diplomacy and political will, financial resources and engineering, water, and environmental management skills. Above all it requires political stability so that the construction can begin. Ingwe III holds the promise of a regional power grid from Cape to Congo, with zero emissions, and the possibility of excess capacity going into the off-peak production of hydrogen for fuel cells. This in turn points to the development of port facilities and tanker fleets to ship the gas to consumers. The prospects for Brazilian/ MERCOSUR and South African/SADC mining, engineering, technology, and construction firms are considerable. Odebrecht is there; Murray and Roberts is there; ESKOM already runs grids in other states; so why not? The project will also be a massive consumer of cement, steel, copper, aluminium, and other metals. It can further boost existing mining activity and open up the sub-continent to exploration and economic development.

Having engineered the large Lesotho Highlands Water Scheme South Africa could possibly go it alone, especially as its financial and business acumen give it the edge over Brazil in doing business in Africa. The bureaucratic regulatory environment that constrains Brazilian business at home may well retard Brazil's forays abroad. But Brazil has the political edge in Angola, the DRC's neighbour, whilst Pretoria's post-1994 relationship with Luanda has been difficult. The 2010 reciprocal visits of Presidents Dos Santos (Angola) and Zuma (South Africa) signal a new beginning, but the reality is that language and history have allowed Brazil to encamp in Angola. And then there is the small matter of the Naval Commission in Windhoek. Best to pitch a large tent and bring Brazil inside.

### Political energy

The Zuma administration, like any other, balances the demands on its resources and time. Currently the second South African developmental state is taking form, the first having functioned under apartheid. This new thrust builds on the modernizing project of Thabo Mbeki's administration, the fifteen years from 1994–2009, and confronts a radically different world to that of the Cold War years. Everything moves faster; information flows are unstoppable. Capital is now even more footloose (part of the constitutional deal)—bar ESKOM and Transnet, all South African TNCs are private, whilst Petrobras is nominally so, and Vale is subject to strong state influence. Try as it might, the Development Bank of South Africa's pales in comparison with BNDES of Brazil. That country arguably still pursues developmental state goals, with a well-aligned labour force. What is being alluded to is that in the South African case the state, labour, and capital are talking past one another, with potentially disastrous consequences. Parties in the administration understand this, witness the (belated) moves of the National Treasury to clamp down on 'tenderpreneurism' and to offer tax incentives to business, thereby accelerating its industrial policy agenda.

Whether the same correctness will be imposed on rent-seeking by South African interests in Africa, both by established mining interests and newcomers, remains to be

seen. Scandals involving such newcomers—oil for food in Iraq (Mail and Guardian, 2009), mineral concessions in the DRC and oil in Uganda are cause for concern (Times Live, 2010). South Africa's Department of International Relations has played no small part in facilitating such entryism.

Aside from the Africa Growth Opportunities Act of 2000, the USA has played a low key role on the continent in recent years, quietly ramping up its oil and gas exploitation, and standing back as China rushed in to secure commodities in exchange for dollars and infrastructure. China, like the old imperial powers, has shown little interest in moral concerns, dealing as easily with failed states as with democracies. Gunboat diplomacy has been replaced by the corporate jet. Bombardment by bonds.

This sketch outlines a high level development path for MERCOSUR-SADC. For all African states a new possibility beckons: since Great Power rivalry has receded, and extraction technologies have matured, African states have the space to negotiate access to their endowment on their terms. Have dirt, will sell and convert, may be the mantra of the time.

At this point in time it appears as if money speaks much louder than political ideology, and there is little reason to expect this to change in the medium term. South Africa attained the political goal of BRIC membership. In so doing it opens the African Gateway for the original BRICs. For South Africa caution is the watchword. The Chinese curse refers: 'beware of what you wish for, it may come true.'

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