Within the context of BRICS: A South African perspective on cooperation and coordination between private and public-sector business and trade-and-investment promotion agencies

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INTRODUCTION

The changing global economy

Long-term shifts in global trade and investment are reshaping the world economy and international politics. Chief among these developments is the emergence of rapidly growing economies, particularly China, India and Brazil. Urbanisation and industrialisation in China and India are likely to keep demand for natural resources relatively high for a decade or more. The emergence of more consumers in developing countries will broaden opportunities for all economies. In decades to come, as emerging economies increase their share of world trade and investment, the relative decline in the economic weight of the United States, Europe and Japan could lead to a reorganisation of the international diplomatic and governance architecture, reflecting new centres of influence. The emergence of the BRICS group (Brazil, Russia, India, China and South Africa) is a good example of this.

South Africa is well positioned to benefit from rapid growth in developing countries, which leads to increased demand for commodities and expanding consumer markets. At the same time, however, these trends pose challenges for middle-income countries, which are now facing much greater competition than before. In recent years, South Africa's exports to advanced economies have slowed in response to lower demand. This decline has been offset by increased demand from Asia as well as higher commodity prices. While South Africa has maintained a reasonably sound trade balance, largely due to high commodity prices, the slowing in high-value-added and labour-intensive exports is cause for concern. In the medium term, South Africa needs to respond to this trend by bolstering competitiveness and investment in high-value-added industries and increasing its volume of mineral exports. In the longer term, the country needs to do more to enhance competitiveness in areas of comparative advantage, thereby drawing more people into the job market. This will require greater policy focus, effective implementation of industrial policies, and improved skills development.

The international economy has become so intertwined that few countries, if any, are able to function effectively looking inward alone. Modern-day economies require a far greater degree of economic cooperation and outward-looking approaches in order to find new markets to sustain their industries and keep their products internationally competitive. In the era of globalisation, this increasingly occurs by identifying and matching complementary sectors and products of various countries' economies. Of course, the investment needed to develop these niches requires significant attention. Increasingly, this is happening through regional cooperation and the establishment of trade blocs. This paper focuses on BRICS, but many of the principles are most likely to apply to other geo-political regional blocs also.

With this in mind, South Africa will also have to continually assess its approach to trade-and-investment promotion in order to, on the one hand, harness the growing potential and, on the other, address the impediments it faces, such as competitiveness, the expansion of its manufacturing sector and the reversal of trade imbalances.

This will require great effort by both the public and the private sector, and organisations tasked with promoting trade and attracting investment, both domestically and amongst strategic trade partners such as BRICS, will have to collaborate and coordinate their activities more than ever in order to achieve the desired results.

Structure of this paper

This paper, which is intended to contribute to the panel discussion on "Networks, partnerships and coordination among public and private trade promotion and investment attraction organisations", approaches the topic from the perspective of South Africa and its positioning within BRICS. From this vantage point, it reflects on whether existing domestic as well as intra-BRICS networking, partnering and coordination among public and private trade-and-investment promotion agencies can be considered adequate.

More specifically, Part 1 analyses the South African economy and, within that context, concludes with a number of important considerations in developing the country's trade-and-investment approach and, consequently, its trade-and-investment promotion strategy. It will become evident that the issues identified cannot be solved by any one organisation or, for that matter, any one country working in isolation. It will require intensive coordination within and between private and public entities involved with trade-and-investment promotion.

Part 2 builds on Part 1 by briefly identifying some of the impediments to effective trade-and-investment promotion, which require a domestic and multilateral cooperative approach to resolve, and will inform the work of both public and private trade-and-investment promotion agencies.

In Part 3, I will make some practical proposals as to how to improve networking and coordination between both public and private entities involved with trade-and-investment promotion, both domestically and amongst strategic trade partners – concluding that cooperation has become an urgent imperative.

Finally, Part 4 shares some practical ideas and best practice with regard to trade-and-investment promotion activities as experienced by the ANC Progressive Business Forum, which I represent.

As mentioned previously, although this paper focuses on South Africa and its perspective as a BRICS partner, the principles should in the main hold true for other, similar regional trade blocs in which individual countries may participate.

PART 1: OVERVIEW OF THE SOUTH AFRICAN ECONOMY

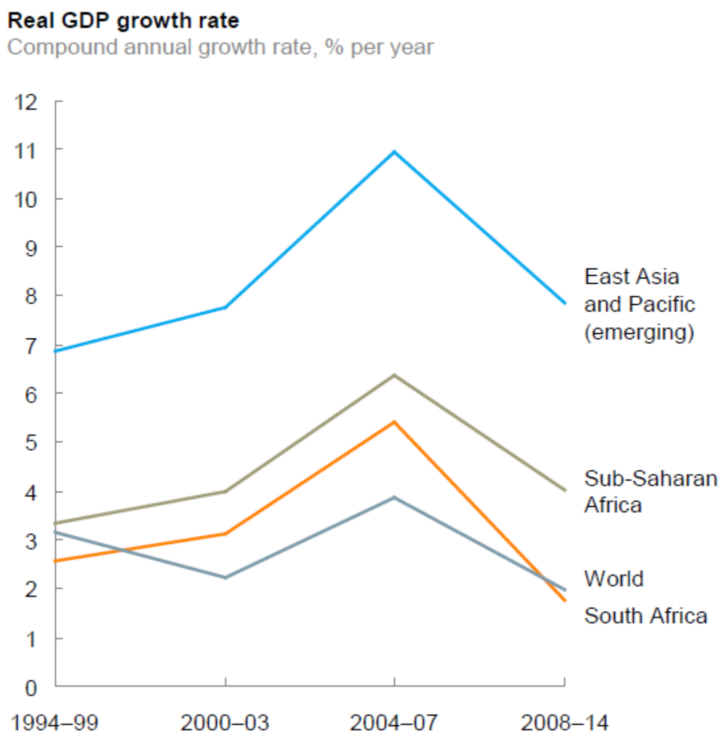
In 2014 South Africa's growth continued to slow down, recording only 1.5%, the weakest performance since the global financial crisis. The nation's economy was affected by its most protracted industrial action since the end of apartheid and, as a result of the slow global economic recovery, significantly weak demand from trading partners. Various infrastructure gaps, notably inadequate energy supply, weak domestic demand, and anaemic investment rates also acted as a drag on growth. Nevertheless, projections based on improvements in the global economy, the successful completion of major government projects (including the Medupi power station), and new investment plans, suggest that growth could rebound to 2.0% in 2015. As one of the BRICS (Brazil, Russia, India, China and South Africa) the country is well integrated into the global economy.

1.1 South Africa as an investment destination

Overall, South Africa is an attractive market for investors. In 2013 South Africa was in the number one position as the biggest recipient of foreign direct investment in Africa. The financial account of the balance of payments recorded R183 billion in net foreign capital inflows in the first three quarters of 2014.[1] Foreign direct investment (FDI) recorded a net capital outflow of R21 billion over the same period as domestic firms continued to expand abroad, particularly in Africa. South Africa is also one of the largest contributors to FDI projects in Africa. Outward FDI nearly doubled to US$5.6 billion and increased its share of greenfield investments into Africa from 3% between 2003 and 2008 to 7% between 2009 and 2013.[2] Over time, dividend flows from these assets can help improve the current account balance.

South Africa continues to be one the most attractive markets in Sub-Saharan Africa on account of its limited security risks in comparison to elsewhere on the continent. Nonetheless, the country's competitiveness is hampered by a weak economic outlook, a limited and largely unskilled labour pool and a certain degree of policy uncertainty.

[1]http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.
[2]http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.



1.2 Constraints on the economy

- Volatile labour relations
    - South Africa was hit by its most protracted industrial action since the end of apartheid, as platinum miners took strike action for just over five months in the first half of 2014. The strike ended in June with mining companies conceding to several workers' demands, and agreeing to increase wages over the next three years. The strikes reflect a history of activist labour movements and continued discontent with the workers' share of the benefits of the country's vast natural resource wealth. The strike was also a repudiation of the dominant union formation, the COSATU, which lost its position of leadership in the platinum sector to a new union

- High levels of unemployment and inequality
    - Unemployment and poverty remain structurally intertwined in the country and South Africa is one of the most unequal societies in the world. Unemployment stood above 25% in the second quarter of 2015 with youth unemployment over 50%, indicating one of the lowest labour force absorption rates, at 43.2% in June 2015. According to Statistics South Africa, results for the second quarter of 2015 show that South Africa's working-age population was 36,0 million people – 15,7 million employed, 5,2 million unemployed and 15,1 million 'not economically active'.[3] All net job creation after 2009 has occurred in the public sector while by mid-2014, the private sector had recovered only about 36% of the 449 100 private sector jobs lost during the recession. The main factors hindering job creation in the private sector

[3] http://www.statssa.gov.za/publications/P0211/Press_statement_QLFS_Q2_2015.pdf.

are considered to be weak economic growth, lower than desired business and investor confidence, and electricity supply constraints. The Expanded Public Works Programme, one of the main instruments of South Africa's Active Labour Market Policies, aims to alleviate poverty and unemployment through training and work opportunities for poor and unemployed South Africans. The youth employment tax incentive scheme introduced in January 2014 recorded 56 000 beneficiaries in the first month. The scheme supports the shift towards a more labour-intensive growth path by helping the private sector to create jobs.

  - The services sector has grown in contrast with the manufacturing sector, despite the government's industrialisation plans to combat unemployment. Skills shortages continue to act as a constraint on growth. The outlook for growth is better for financial services and for agriculture, forestry and fisheries sectors. The National Development Plan (NDP), which aims to eliminate poverty and reduce inequality by 2030, focuses on creating jobs and improving education.

- Skills scarcity and low educational outcomes
  - South Africa continues to face poor educational outcomes. The education system has failed to produce the skills in high demand by the economy. The quality of education remains poor, particularly in previously disadvantaged black schools. The NDP underlines the need for all children to have access to at least two years of pre-school education to improve early childhood development (ECD). The Department of Basic Education was due to roll out a National Curriculum Framework for children under four in registered ECD centres from January 2015. South Africa in effect achieved the MDG goal of universal access to primary education before the year 2015, covering children between 0-13 years old who constitute nearly 30% of the country's population. Gross primary school enrolment for those aged 7-13 was 102% while for girls it was 98.8% and boys 104% in 2012. In 2013/14 the government spent R 240 billion (USD 24 billion) or about 21% of total public expenditure on education and related functions.[4] According to the Statistics South Africa 2013 Survey, approximately 740 893 students were enrolled at higher educational institutions during 2013. Almost two-thirds (66.4%) of these students were black Africans. However, proportionally this group is still underrepresented as only 3.2% of Black Africans aged 18 to 29 years were studying – similar to the coloured population at 3.1% – as opposed to 9.2% of Indian/Asian individuals and 18.7% of the white population in this age group. The government is building two new universities in two remote provinces to cater for increasing demand for tertiary education while striving to improve quality in all higher learning institutions.

- Ongoing electricity shortages and rolling blackouts
  - Inadequate and unreliable electricity supply has also reduced investor and consumer confidence over the medium term, the electricity supply constraint will curtail

[4]http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.

output and limit expansion. Rolling blackouts are expected to continue for the next three to five years.

- Tariffs will continue to rise steeply (expect 8% in 2016, 10% a year 2017-19). Free Basic Electricity grants have been increased to soften the impact of higher tariffs on low-income households, but higher electricity costs will drive up inflation and hinder economic growth.
- Eskom has serious structural and organisational issues that will probably take 5 years to resolve. Governance, managerial, operational and financial weaknesses, and a lack of political leadership, are hindering efforts to get generation and transmission infrastructure back on track. A decline of one percentage point in South Africa's 2015 GDP growth is expected, as a result of depressed energy-intensive exports and production, a drop in private fixed investment, and continuation of the large current account deficit.
- Given the government's action plan to address this issue it can be confidently said that this current challenge is of a passing nature that will systematically reduce as new generating capacity systematically comes on line over the next few years (see table below).

Measures to address South Africa's electricity supply constraint

South Africa's electricity supply constraint has worsened, largely owing to inadequate maintenance, leading to unplanned outages. Government's ministerial electricity "war room" is working to address the following:

- Short-term funding, maintenance and diesel supply concerns.
- Speeding up the completion of the Medupi and Kusile power stations.
- Procuring additional co-generation capacity of about 800 MW over the next six months.
- Increasing gas generation. Government has released a request for proposals for 3 126MW of power from natural gas, with initial power expected to be available by 2020. Steps are also under way to switch Eskom's open-cycle gas turbines from diesel to natural gas.
- Obtaining up to 2 500MW from independent power producers generating electricity from coal; this power should start being added to the grid by 2020.

Government is in talks with business and considering a wide range of options to improve energy efficiency and manage demand. Options under consideration include expanding the use of smart meters, "buying back" power from large industrial users and varying tariffs by time of use. Over time, progress towards tariffs that reflect Eskom's costs of producing electricity will encourage businesses and households to use energy more efficiently.

Over the period ahead, South Africa will procure imported hydro power (2 609 MW) and 13 more renewable power projects totalling 1100 MW from the private sector. South Africa has already contracted a total of 4 100 MW of renewable energy from 66 different private-sector projects since 2011, of which 32 are supplying 1 522 MW to the grid. A framework for investment in gas infrastructure has been released for public comment.

Government has also initiated discussions with several potential partner countries to explore nuclear power production. Like any substantial long-term investments of this magnitude, proposals would be subject to rigorous feasibility, affordability and environmental impact assessments. Final contracting would be subject to fair, transparent and competitive procurement processes within the requisite legal framework.

Frequent unplanned outages and low plant availability are expected to persist for the next three years. Reforms under way, however, will over time lead to the development of a vibrant, diversified and competitive electricity sector, which will change the supply mix, expand private participation, and ensure robust and flexible supply.

- Infrastructure gaps
    - Investment in public-owned infrastructure, such as electricity and transport, is being intensified. Telecom investment responds to a need for a technology catch-up. However, no structural changes are being implemented to diversify the supply of electricity, transport and telecommunications in the future. The government aims to overcome South Africa's persistent infrastructure gap and directly stimulate the country's economy. In line with the country's National Infrastructure Plan, it aims to

spend R 827 billion (South African Rand) on infrastructure over a period of three years, starting in 2013/14.[5]

- Policy uncertainty creates risks to investor confidence
  - Poor coordination across government departments will continue to result in conflicts between them and regulatory uncertainty (along the lines of recent disputes e.g. between the Department of Trade and Industry (DTI) and Department of Minerals and Energy over pricing issues in the Mining Bill, and between Home Affairs and Department of Tourism over the new visa regulations)
  - Land ownership continues to be a highly emotive issue. Mechanisms need to be identified to speed up redress and resolution in order to bring about a greater degree of certainty, especially in the field of agriculture

1.3 South Africa's economic outlook

Projected GDP growth is revised down from 2.5 to 2% in 2015, with a gradual rise to 3% by 2017.[6] Average growth over the forecast period is 0.4 percentage points lower than at the time of the 2014 Medium Term Budget Policy Statement. The economic forecast takes into account a wide range of factors. Global growth has been revised downwards. While there is uncertainty about the impact of key variables (see box on following page), in comparison with the pre-2008 period, a protracted period of lower global economic growth is expected. Terms of trade gains might provide temporary relief for domestic prospects, but they are likely to be offset by constraints on output growth, notably the electricity constraint. Inadequate and unreliable electricity supply has also reduced investor and consumer confidence. National Treasury expects that growth will increase to 3% by 2017.

[5] http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.

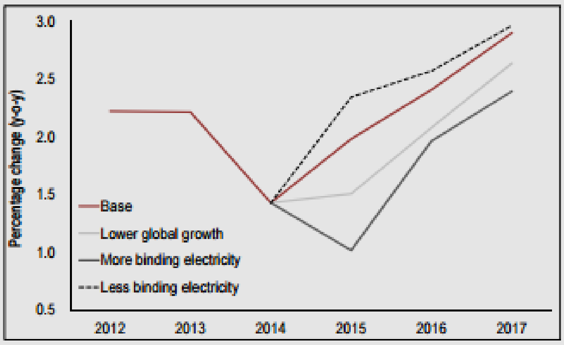
[6] http://www.treasury.gov.za/documents/national%20budget/2015/review/chapter%202.pdf.

Economic growth scenarios

The current economic environment is characterised by high levels of uncertainty in the global outlook, the oil price and the net effect of the electricity supply constraint. Consequently, it is useful to discuss the main assumptions used by the National Treasury in compiling the GDP forecast.

Growth rate assumptions are as projected in Table 2.1. The oil price is projected to rise from current levels to US$75/barrel by 2017. Platinum prices are expected to rise from current levels of US$1 200/oz to US$1 450/oz in 2017. Coal prices are projected to increase marginally. Gold prices are likely to remain at current levels, while iron ore prices are expected to fall marginally in line with slowing growth in China. The forecast assumes electricity disruptions to output and consumption consistent with intermittent load shedding.

GDP growth scenarios to 2017



Source: National Treasury

A number of scenarios are possible depending on the outcome of these assumptions:

- Further deterioration in electricity availability in the current year, reducing growth to 1 per cent in 2015. The mining and manufacturing sectors would be most affected due to their high electricity intensity. Lower employment growth would negatively affect disposable income and household consumption.
- A decline in global growth by more than anticipated, pushing commodity prices down. A 0.5 percentage point decline in the annual growth rate for global demand, and a 10 per cent fall in export commodity prices, would lower GDP growth to 1.5 per cent in 2015 and 2.1 per cent in 2016.
- Better-than-expected availability of electricity or greater energy efficiency could boost growth in 2015 by 0.4 per cent, strengthening the benefits associated with lower oil prices and positive terms of trade.

1.4 Overview of South Africa's trade

China is South Africa's biggest trading partner, with imports and exports totalling R263.9 billion in 2013 — although as a region the European Union (EU) records trade valued considerably above that amount (R449.9 billion). Both relationships are heavily skewed, with South Africa suffering a trade deficit of R45.2 billion with China and R119 billion with the EU. Germany is the country's second biggest trading partner, followed by Japan and the United States. In terms of emerging markets (other than China), India tops the list with R79.9 billion worth of trade, followed by Thailand and Brazil — with South Africa recording significant trade deficits against all three.

On the African continent oil and gas producers such as Nigeria, Mozambique, and Angola are the main trading partners but South Africa again suffers significant trade deficits with Nigeria and Angola. The main non-energy trade partners are Zambia, Zimbabwe, and the Democratic Republic of Congo, where South Africa records notable trade surpluses. However, even our biggest intra-African trade relationship (with Nigeria) is only 10% the size of that with the EU.

Top imports include oil and a host of manufactured goods from cellular phones to pharmaceuticals. Major exports are coal, gold, iron ore, and platinum. Other than the subsidised motor industry, there is only one other manufactured good (machinery) in the list of South Africa's top-ten exports.

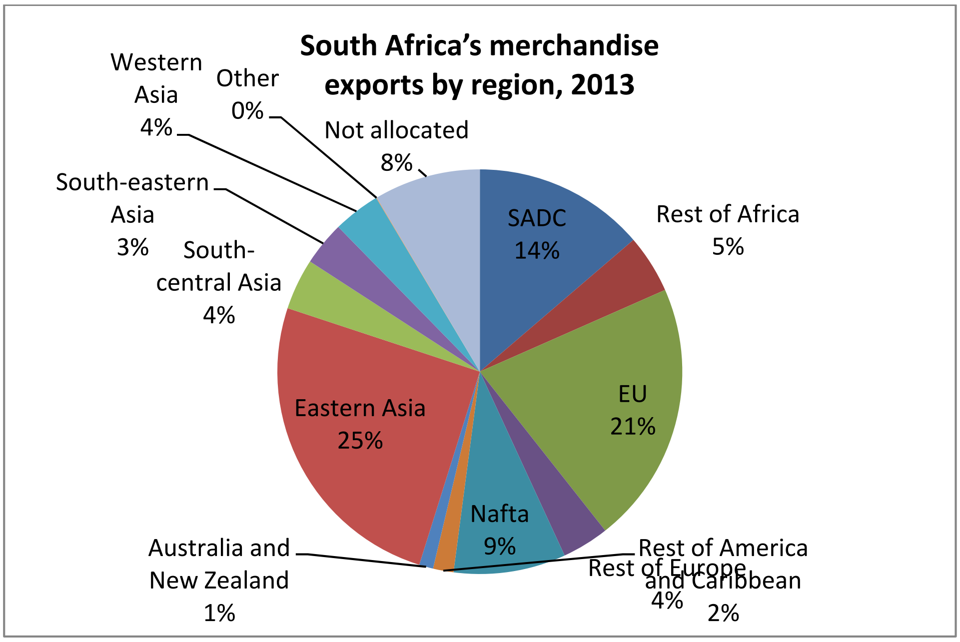
South Africa has one of the most attractive private business regulatory climates in the Southern Africa region. The World Bank's Report Doing Business 2014 ranks South Africa as the 43rd easiest country to do business in globally out of 189 countries; it requires 19 days and five procedures to start a new business and there is no minimum capital requirement.[7] In 2014, South Africa created a new small business development ministry, the main mandate of which is to provide effective support to small businesses to ease their compliance and regulatory burden. Small business is regarded as an engine of growth and job creation across the developing economies. The Global Competitiveness Report 2014-15 identifies the six most problematic factors for doing business in South Africa as: i) restrictive labour regulations; ii) an inadequately educated labour force; iii) inefficient government bureaucracy; iv) corruption; v) inadequate supply of infrastructure and vi) policy instability. In 2013, South Africa promulgated the Promotion and Protection of Investment Bill which aims to cancel long-standing bilateral investment treaties (BITs) with several developed economies and replace them with a comprehensive investment bill. Some BITs had expired and there was a vacuum. In the case of the EU countries the BIT competency has moved to Brussels and South Africa finds it inefficient to negotiate with individual member states. Although some advanced economies were sceptical about the new bill, others have commended the measure as a common practice in several advanced economies. There are currently 45 countries, which are reviewing their BITs. The government plans to boost the trade-and-investment environment for companies wanting to do business in Africa primarily by simplifying tax and foreign exchange frameworks.

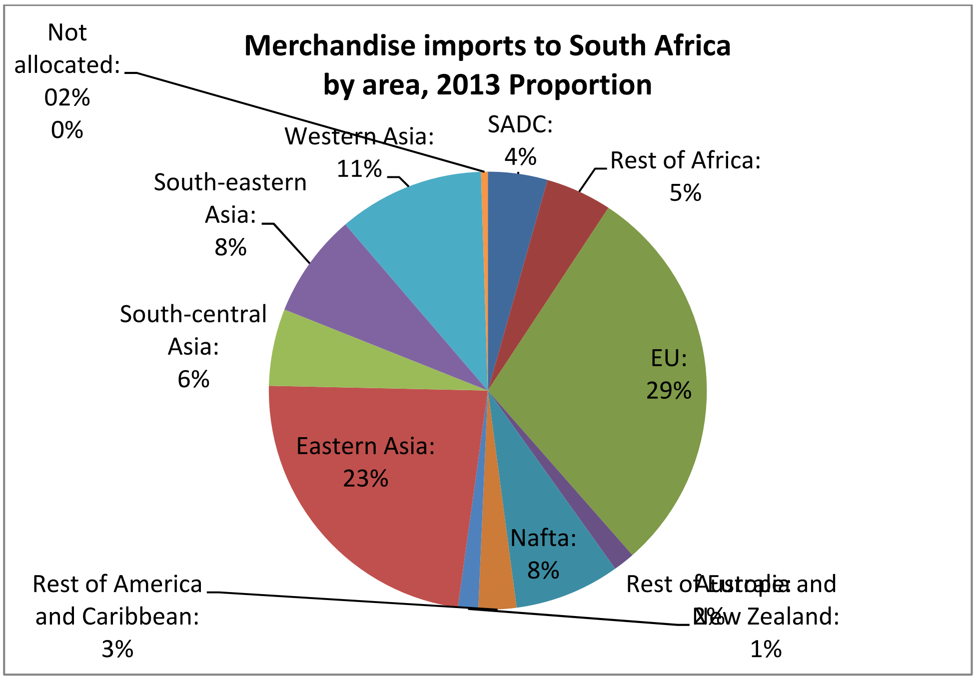
South Africa's merchandise trade with the world, 2013[a]

Country	*Imports Rbn*	*Exports Rbn*	*Total Rbn*	*Trade balance Rbn*
Southern African Development Community (SADC)	43.2	108.0	151.2	64.9
Rest of Africa	48.0	36.9	84.9	-11.1
European Union (EU)	284.4	165.4	449.9	-119.0
Rest of Europe	15.4	29.5	45.0	14.1
North American Free Trade Agreement (Nafta)area	75.4	70.6	145.9	-4.8
Rest of America and Caribbean	27.2	13.0	40.1	-14.2
Australia and New Zealand	14.6	8.8	23.4	-5.8
Eastern Asia (including China, Hong Kong, Japan)	225.1	198.9	424.0	-26.2
South-central Asia (including India, Iran, Kazakhstan, Pakistan)	55.7	32.2	87.9	-23.5
South-eastern Asia (including Indonesia, Malaysia, Singapore, Thailand)	74.8	27.7	102.6	-47.1
Western Asia (including Israel, Iraq, Turkey)	105.0	29.7	134.7	-75.4
Other	0.4	0.3	0.7	-0.1
Not allocated	2.0	67.1	69.1	65.1
Total	**971.2**	**788.1**	**1 759.3**	**-183.1**

Source: IRR, South Africa Survey 2014/15 based IDC, email communication, June 2014

[7] http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf.





1.5 Economic cooperation, regional integration and trade

South Africa seeks to promote regional integration at three levels: the South African Customs Union (SACU), the South African Development Community (SADC) and the Tripartite Free Trade Area (T-FTA) between SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) covering 26 countries with a population of 626 million and a combined

GDP of USD 1 trillion.[8] South Africa has championed a developmental integration model that combines market integration, co-ordinated cross-border infrastructure development, and policy co-ordination to develop and diversify industrial capacity. This model has not been particularly successful in creating intra-African trade, because the trade potential amongst African countries is severely limited by the lack of industrial development and diversification.

The Developmental Integration Model recognises the fact that, because levels of development are dissimilar, the partners are unlikely to benefit equally. The model proposes to undertake steps to draw levels of development closer to each other, in an integrated way and therefore as an integration effort in itself. Market integration supports industrial development; and infrastructure development, planned and co-ordinated from a regional perspective, supports both the other two pillars. Efficient infrastructure reduces the cost of production and trading. These three pillars have to be driven concurrently. The Tripartite engagement is structured along these three pillars that outh Africa has contributed to the development of SACU's five-point plan, which aims to transform the customs union from an agreement on tariffs and revenue-sharing into an integrated institution capable of promoting true regional economic development.

The current revenue arrangement makes South Africa the biggest development partner of the Botswana, Lesotho, Namibia and Swaziland (BLNS) countries. South Africa dominates the region economically, accounting for 41% of SADC's total trade and about 54% of SADC's GDP in 2013. South Africa also seeks to deepen integration with the BRICS countries. South Africa's current account deficit declined from 5.8% in 2013 to 5.4% in 2014.[9] This was due to higher export volumes, which were driven in part by reduced strike action, relatively favourable conditions in some export destinations and the more competitive exchange value of the rand.

1.6 Policy in practice – Incentives, new sectors and new business

The establishment of special economic zones, various tax incentives and grant funding for upgrading equipment and processes should help local firms become more competitive. The turnover tax and venture capital tax incentives were revised in 2014. The R&D tax incentive has approved 428 projects valued at R2.9 billion in 2013/14.[10] Operation Phakisa (Hurry up) has established "delivery labs" to cut red tape and speed up rollout. The first two such labs focused on the oceans economy (offshore oil, marine transport and aquaculture) and health services. As a result of the first lab, Transnet National Ports Authority announced R9.65 billion in infrastructure projects at Saldanha Bay.

Important structural changes are under way in agriculture, manufacturing and mining. These are expected to boost long-term growth potential.

- Since 2010, manufacturing has increased gross fixed-capital formation by a compound annual average of 10.3%, with a focus on replacing or upgrading machinery and equipment. This has improved local firms' international competitiveness and boosted exports.

[8] http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.

[9] http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/South_Africa_GB_2015.pdf.

[10] http://www.treasury.gov.za/documents/national%20budget/2015/review/chapter%202.pdf.

- In clothing, footwear and textiles, new production and clustering systems enable firms to respond flexibly, with short lead times, to local demand – changes that could substantially boost job creation
- Mining production and investment have shifted towards newer, better performing export sectors, such as iron ore, coal and manganese.
- Agriculture has become more export focused. Labour-intensive horticultural exports (such as grapes, citrus and tree nuts) are growing as a share of output, replacing highly mechanised grain exports such as maize. Investment growth has averaged over 10% since 2010.[11] There are notable developments in emerging sectors such as oil and gas. The port of Saldanha has seen significant increases in rig-repair and fabrication work, with new operators and private investors. An oil servicing zone within the Saldanha industrial development zone is planned for services and suppliers into the African industry. Government will encourage exploration for both shale and offshore gas. Recent local investments by Google and Amazon suggest the potential to expand entrepreneurial and technology-based firms, demonstrating the sophistication of the economy and possible future growth avenues.

1.7 South Africa and BRICS

The considerable expansion in South-South trade, especially in the last decade, is seen as an exciting new phenomenon with a number of developing countries among the major trade partners. Trade-and-investment ties between South Africa and Brazil in particular have been strengthening, underpinned by the reach and influence these two countries enjoy in their respective continents. Despite short-term setbacks due to the global financial crisis, differing comparative advantage in products produced in the two countries provides many opportunities for expansion in two-way and regional trade and investment. The rapid development of the BRICS agenda has multiplied the rate of collaboration showing that said cooperation is spreading to several areas besides politics, such as trade, finance, agriculture, health and culture.

Throughout the process of political cohesion between partners, who until recently rarely cooperated, the results have been impressive. With the weakening roles of economic leadership of the US and EU, which were seriously shaken by the financial and economic crisis of 2008, the BRICS members have become important participants in international meetings in which they discuss ways to overcome the current crisis. The BRICS configuration on the international scene is refreshing as it presents the co-ordinated voice of five emerging countries, with clear objectives of being called to participate in the decision-making forums of the main international organisations and making themselves heard in order to identify solutions to the major problems everyone faces today.

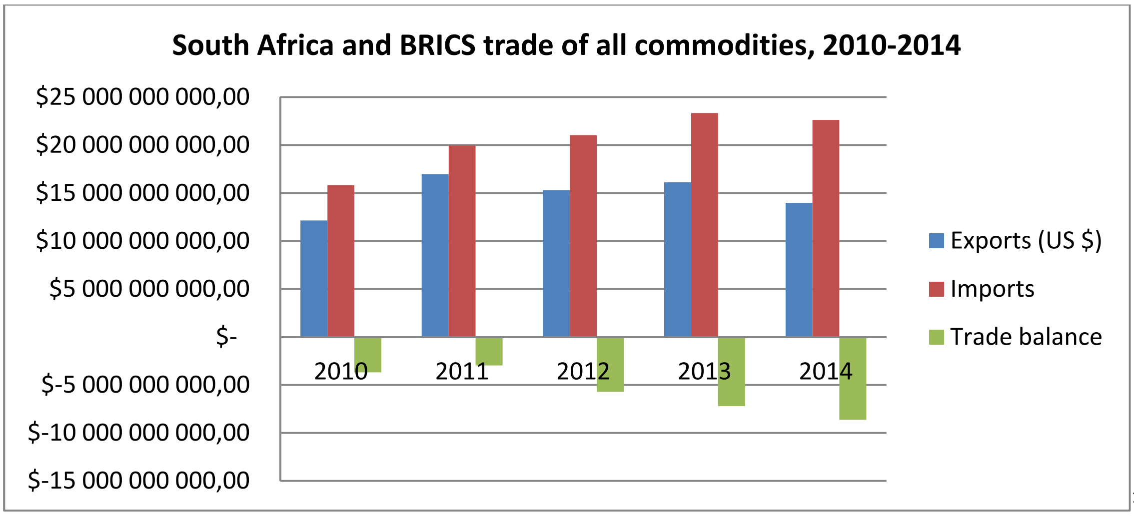
Given that SA has the second largest economy in Africa; its inclusion in BRICS has further boosted its geo-political significance. The SA economy constitutes a third of economic activity in sub-Saharan Africa, and 80% of economic activity in the Southern African Development Community. SA is endowed with abundant mineral and natural resources, and has relatively well-developed financial, energy, and transport sectors, unlike most African countries. It is clearly a continental leader in terms of infrastructure, financial institutions, and outward investment. The other BRICS countries

[11] http://www.treasury.gov.za/documents/national%20budget/2015/review/chapter%202.pdf.

also dominate their respective regions or continents, and thus their coalition, especially in terms of economic cooperation, can augment their influence in global affairs. SA's rich endowment of mineral and natural resources complements Brazil's specialisation in agriculture and raw materials, Russia's position as a major player in the commodity market, India's services-exporting economy, and China's recognition as the 'world's factory'. The BRICS countries also share similar economic challenges, particularly the task of raising the standards of living of their citizens. SA has strong ties with Europe as a result of its prolonged colonial history. Indeed, the EU has been its major trading partner, with a Preferential Trade Agreement entrenched in the Trade Development and Cooperation Agreement. The EU remains a major trading partner with SA, but BRICS is rapidly catching up.

Some figures on trade between South Africa and its BRICS partners are as follows:

- In 2014, the SA Presidency reported that in 2013 South Africa's total trade with its BRICS counterparts reached R380.4 billion, a 27.5% jump on 2012.
    - South Africa's total trade with Brazil grew from R20.1 billion in 2012 to R21 8-billion in 2013, representing growth of 8.5%.
    - Trade with Russia trade increased by 47%, from R5.1 billion to R7.5 billion.
    - Trade with India grew by 18.3%, from R68.3 billion to R80.8 billion.
    - Trade with China grew from R204.6 billion in 2012 to R270.1 billion in 2013, or 32%.
- In April, the South African Reserve Bank reported that it had signed a three-year bilateral swap agreement with the People's Bank of China (PBoC) for the exchange of local currencies between the two central banks of up to 30 billion yuan (R57bn), with a view to supporting trade and investment between SA and China, and to act as a mitigating resource for short term balance of payment pressures. Two-way trade between China and South Africa amounted to R262 billion in 2014.



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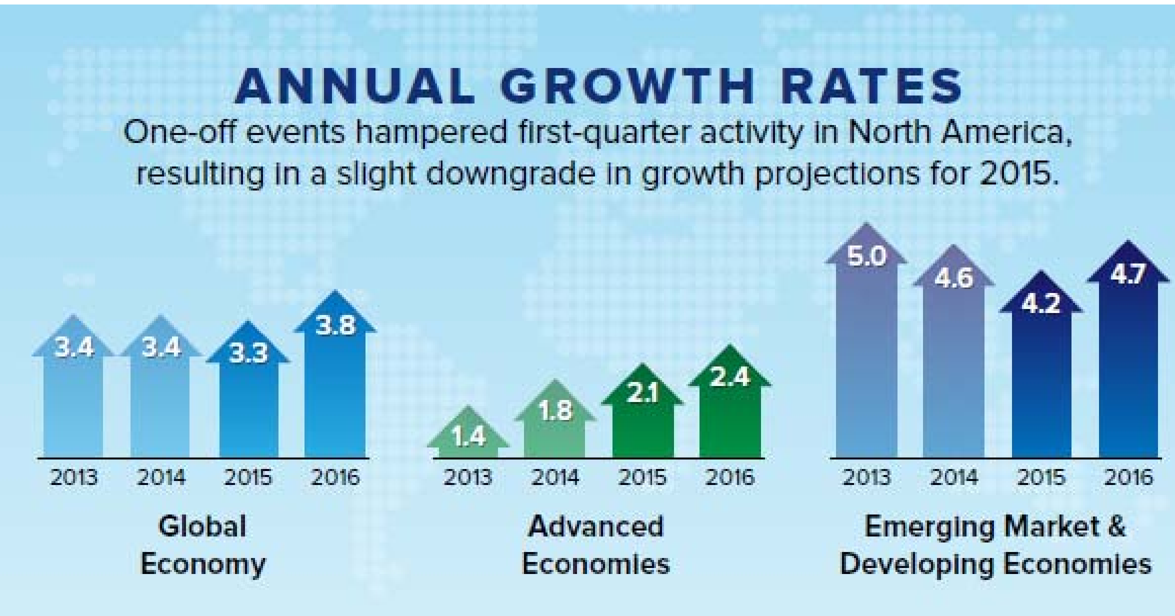
[12] Department of Trade, Trade data, http://tradestats.thedti.gov.za/ReportFolders/reportFolders.aspx.

1.8 Global and emerging-markets outlook



Growth in advanced economies is projected to increase from 1.8% in 2014 to 2.1% in 2015 and 2.4% in 2016.[13] The unexpected weakness in North America, which accounts for the lion's share of the growth forecast revision in advanced economies, is likely to prove a temporary setback. The underlying drivers for acceleration in consumption and investment in the United States—wage growth, labour market conditions, easy financial conditions, lower fuel prices, and a strengthening housing market—remain intact.

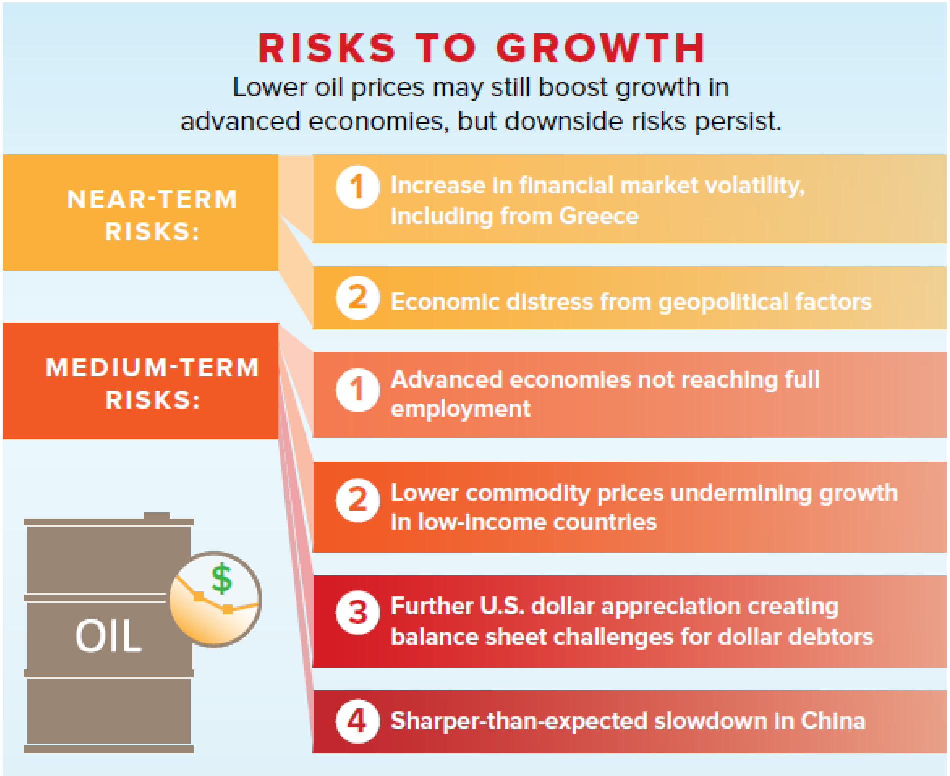
The economic recovery in the euro area seems broadly on track, with a generally robust recovery in domestic demand and inflation beginning to increase. Growth projections have been revised upward for many euro area economies, but in Greece, unfolding developments are likely to take a much heavier toll on activity relative to earlier expectations. In Japan, growth in the first quarter of 2015 was stronger than expected, supported by a pickup in capital investment. However, consumption remains sluggish and more than half of quarterly growth stemmed from changes in inventories. With weaker underlying momentum in real wages and consumption, the pickup in growth in 2015 is now projected to be more modest.

Growth in emerging-market and developing economies is projected to slow from 4.6% in 2014 to 4.2% in 2015, broadly as expected. The slowdown reflects the dampening impact of lower commodity prices and tighter external financial conditions—particularly in Latin America and oil exporters, the rebalancing in China, and structural bottlenecks, as well as economic distress related to geopolitical factors—particularly in the Commonwealth of Independent States and some countries in the Middle East and North Africa.

[13] http://www.imf.org/external/pubs/ft/weo/2015/update/02/.

In 2016, growth in emerging-market and developing economies is expected to pick up to 4.7%, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North Africa.[14] In many other emerging-market and developing economies, much of the growth slowdown in recent years has amounted to moderation from above-trend growth.

1.9 Risks to the forecast



In view of the muted consumption response so far, a greater boost from lower oil prices is still an upside risk, especially in advanced economies.

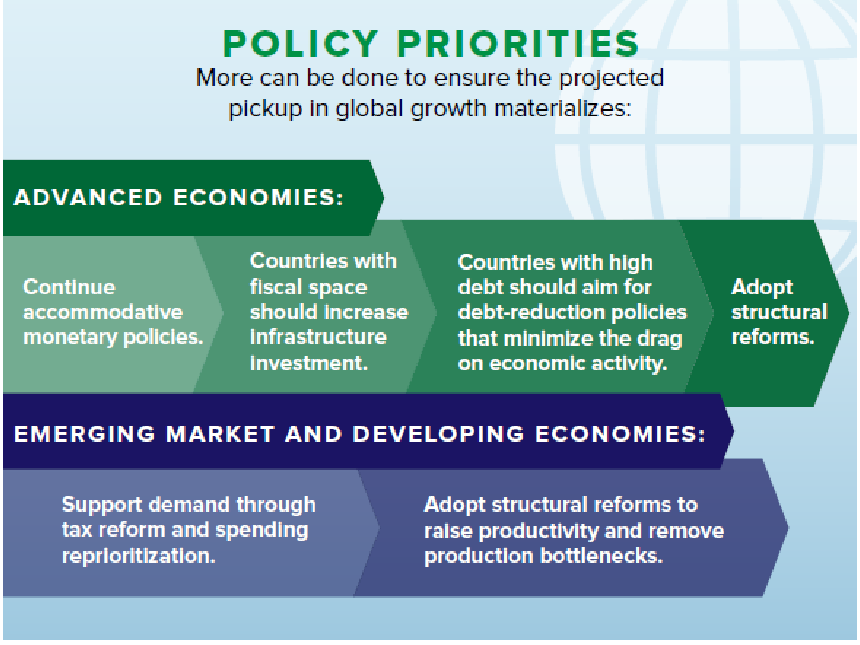
Disruptive asset price shifts and a further increase in financial market volatility remain an important downside risk. Term and risk premiums on longer-term bonds are still very low, and there is a possibility of markets reacting strongly to surprises in this context. Such asset price shifts also bear risks of capital flow reversals in emerging-market economies. Developments in Greece have, so far, not resulted in any significant broader implications. Timely policy action should help to manage such risks if they were to materialise. Nevertheless, recent increases in sovereign bond yields in some euro area economies reduce upside risks to activity in these economies, and some risks of a re-emergence of financial stress remain.

Further U.S. dollar appreciation poses risks of balance sheet and funding risks for dollar debtors, especially in some emerging-market economies. Other risks include low medium-term growth or a slow return to full employment amid very low inflation and crisis legacies in advanced economies, greater difficulties in China's transition to a new growth model, as illustrated by the recent financial

[14] http://www.imf.org/external/pubs/ft/weo/2015/update/02/.

market turbulence and spillovers to economic activity from increased geopolitical tensions in Ukraine, the Middle East, or parts of Africa.

1.10 Policy priorities



The projected pickup in global growth, while still expected, has not yet firmly materialised. Raising actual and potential output through a combination of demand support and structural reforms continues to be the economic policy priority.

In advanced economies, accommodative monetary policy should continue to support economic activity and lift inflation back to target. In a number of countries with fiscal space, the near-term fiscal stance should be eased, especially through increased infrastructure investment. In economies with high public debt, the pace of fiscal consolidation needs to strike an appropriate balance between debt reduction and imposing a drag on economic activity. Efforts at implementing structural reforms remain urgent across advanced economies, both to tackle crisis legacies and to raise potential output.

In emerging-market and developing economies, macroeconomic policy space to support demand is generally more limited but should be used to the extent possible. In many of these economies, demand support should come from fiscal policy rebalancing aimed at boosting longer-run growth, through tax reform and spending reprioritization. In oil importers, lower oil prices have reduced price pressures and external vulnerabilities, which will ease the burden on monetary policy. In oil exporters, public spending should be adjusted to lower oil revenue where there is no fiscal space. Exchange rate depreciation can help to offset the demand impact of oil-related terms-of-trade losses in countries with flexible exchange rate regimes. Structural reforms to raise productivity and remove bottlenecks to production are urgently needed in many economies.

1.11 Sovereign ratings

Sovereign credit ratings, 2015			
Country	Standard & Poor's	Moody's	Fitch
Brazil	BB+ negative	Baa3 stable	BBB negative
Russia	BB+ negative	Ba1 negative	BBB- negative
India	BBB- stable	Baa3 positive	BBB- stable
China	AA- stable	Aa3 stable	A+ stable
South Africa	BBB- stable	Baa2 stable	BBB+ stable
Source: Trading economics, www.tradingeconomics.com			

With the exception of China, all of the emerging markets above show credit ratings that fall within lower –medium and non-investment grade status. South Africa sits one notch up from junk status. Financial markets are betting that Russia, SA, Turkey and Colombia will be next in line for "junk" debt status after Standard & Poor's stripped Brazil of its investment-grade credit rating. Brazil's downgrade had long been expected following recent scandals and its slide towards recession, but it has sharpened the focus on who could be next. Slumping commodity prices and the prospect of rising global interest rates, worsened in some cases by ugly national politics, are laying bare the failure by a number of countries to reform while times were good. On SA, Standard & Poor's has a BBB-rating with a stable outlook, meaning a downgrade from it would see SA hit junk status. Although not impossible, a downgrade when a rating is stable is unlikely, as the agency could first change the outlook to negative.

Moody's has a BAA2 rating on SA with a stable outlook. The BAA2 rating is two notches above junk. It said SA was unlikely to be downgraded in the next 12 to 18 months.[15] Fitch, the only of the three to have a negative outlook on its BBB rating for SA, has expressed concern at deteriorating economic growth prospects. Its rating is two notches above junk. Recent data released on mining and manufacturing reinforced assessments of the precarious state of the economy. The figures were positive only because they were derived from a low base from last year when the sectors were enduring strikes. South African bonds were weaker after the Brazilian downgrade.

Russia, which only Fitch of the three main agencies still rates as investment grade, assigning a BBB-rating, is currently trading as if it were at least three notches into the junk classification. Turkey, which both Moody's and Fitch have on the lowest investment grade rung, is trading as if it were two steps into junk. Colombia, which is being hit hard by the fall in its main export oil and a rift with neighbour Venezuela, is also expected to slide back into the speculative category. The difference between investment grade and junk status can have huge implications for countries' borrowing costs, because global investors — especially those which invest against an index — tend to steer away from lower rated credits.

[15] http://www.bdlive.co.za/economy/2015/09/11/brazil-downgrade-infects-sentiment.

The downgrades currently being seen are partly reversing the close to 200 upgrades that emerging-market borrowers have earned since 2007.[16] As well as those now teetering on the cusp, China, Chile, Malaysia, SA, Mexico, Indonesia, Thailand, Israel, Saudi Arabia and much of the Middle East are priced for rating cuts, according to the data. This begs the question of what the future of BRICS and other emerging-market configurations holds.

1.12 Conclusion

South African trade policy needs to be positioned to exploit markets in emerging economies, including Africa, more fully. This needs to happen in conjunction with policies to increase labour-intensive services and manufacturing exports, both because these will be needed if commodity markets are less robust and because of their employment creating potential. Yet this trend also poses a challenge for policy makers and manufacturers, because present demand from emerging markets is weighted towards commodities and raw materials, rather than a more diversified basket of products required by developed countries.

South Africa has to move onto a path of accelerated growth, the public and private sectors will need to undertake a coordinated and sustained effort to raise productivity and strengthen competitiveness. Moreover, to prepare millions of young people for the jobs of the future, South Africa needs to reshape its system for developing human capital—and, in particular, drive a massive expansion of vocational training programmes that build both the technical and personal skills needed in a more competitive world.

In the period of low global growth forecast over the next several years, South Africa also needs to promote structural reforms needed for the long term. Implementing the National Development Plan delivering social and economic programmes, and completing critical infrastructure projects are intended to improve growth potential. Reducing macroeconomic imbalances, including narrowing the budget deficit as a proportion of GDP and consolidating the debt ratio, will provide a sound and predictable basis for achieving these structural reforms. South Africa must pursue these goals all the while ensuring that trade policy is not exercised in isolation but always bearing in mind responsibility of South Africa, not only domestically, but also towards other countries in Africa and the developing world, for which the BRICS geo-political initiative remains a high international policy priority.
Some of the main issues, therefore, to consider when developing South Africa’s approach to trade-and-investment promotion include inter alia:

- South Africa needs to reverse its economic slowdown, largely due to the weak demand from its traditional trading partners in Europe and the USA where consumption remains sluggish. It needs to find new markets and capitalise on its incorporation into new geo-political blocs such as BRICS.
- It needs to balance its constitutional rights to labour action with the need to remain globally competitive. It must guard against its “cost of labour” out-pricing its goods & services
- The high-level of unemployment means that it needs to rapidly attract investment that creates jobs; also for socio-political stability purposes.

[16] http://www.bdlive.co.za/economy/2015/09/11/brazil-downgrade-infects-sentiment.

- The skills deficiency needs to be supplemented through attracting them from trading & investment partners through a process of skills-transfer.
- The country needs to develop a strategy to address the current negative trade balance with its main trading partners (including the BRICS countries).
- To achieve its stated objective of improving intra-Africa trade it needs to coordinate industrial development and diversification across the region.
- The worsening sovereign ratings across BRICS means reduced investor confidence and more expensive lending. Cross country coordination is required to reverse the downgrading's.
- Third party currency trading pushes up the cost of doing business. BRICS needs to build on the swap agreements to allow for direct settlement in BRICS currencies.
- South Africa needs to urgently address its shrinking manufacturing capacity by putting measures in place to ensure beneficiation of its raw materials prior to export; and to substitute its import of value-added goods through ensuring local manufacturing thereof.
- In the BRICS context: Introduce measures that promote greater integration, easier movement of people and goods and the maximisation of bilateral preferential agreements to benefit manufacturing and trade across the broader trade bloc.

It is evident that the issues identified in the analysis of the South African economy are not issues that can be resolved by a single organisation or, for that matter, by an individual country. Neither can the solution be found by the public sector, without engaging and cooperating with the private sector. It will, indeed, require much coordination within and between private and public entities involved with trade-and-investment promotion.

Pondering on whether effective cooperation to develop trade-and-investment policy, to promote it, and to implement it, is in place in South Africa, the author is doubtful. Whether there is sufficient cooperation across BRICS, it is certain that structural arrangements need to be strengthened to give effect thereto.

PART 2: IDENTIFYING IMPEDIMENTS TO EFFECTIVE TRADE-AND-INVESTMENT PROMOTION, AND ISSUES WITHIN SOUTH AFRICA AND ACROSS BRICS THAT REQUIRE DOMESTIC AND MULTILATERAL COOPERATION AMONGST TRADE-AND-INVESTMENT PROMOTION AGENCIES

Considering the analysis of the South African economy outlined in Part 1, a number of impediments and issues relating to trade and investment can be identified. From the nature of the issues at stake, it is clear that they cannot be resolved by individual states or organisations, but will require concerted effort and cooperation by a myriad of stakeholders. This part of the document briefly highlights some of these issues to illustrate the nature of the conversation that will be required in respect of trade-and-investment promotion, both within South Africa and in the context of BRICS, as well as the need for well-defined cooperation mechanisms between those involved in trade-and-investment promotion. Structural arrangements to achieve this will be proposed in Part 3.

2.1 Trade imbalances

An assessment of South Africa's trade with its main economic partners, including its partners in BRICS, reveals a negative balance across the board. Trade with the European Union in 2013, for example, reflected imports totalling R284 billion and exports of R165 billion, which results in a negative balance of R119 billion. Trade with Eastern Asia, which includes China, Hong Kong and Japan, reflected a R26 billion shortfall (R45,2 billion with China), with imports totalling R225 billion and exports R199 billion. South Africa's trade with the Americas reflects a similar scenario. Only trade with Africa and non-EU Europe reflects a balance in South Africa's favour. South Africa's total imports for 2013 amounted to R971,2 billion and exports totalled R788,1 billion, which left the country with a total negative trade balance of R183,1 billion. This has been a recurring pattern for some time now, which cannot be sustained in the longer term.

To correct this imbalance, South Africa needs to do at least the following two things:

- Firstly, it needs to find new export markets and work actively with its trading partners to achieve equilibrium in their mutual trade.
- Secondly, it needs to work towards import substitution, for example by setting up manufacturing capacity in South Africa for products that it currently imports from abroad.

In working towards these goals, a number of practical steps are required. These include the following:

- The manner of accounting and the customs codes need to be synchronised across all trading partners. These codes are not currently in sync. In China's books, for example, 2013 trade figures with South Africa are reflected as R601 billion (in South Africa's favour), whilst South Africa's records reflect this as R270 billion (in China's favour). It is not possible to achieve equilibrium under such circumstances.
- Mechanisms also need to be found to delve deeper into the actual product ranges imported and to identify their source, so that trade-and-investment promotion agencies can recruit specific investors to take up the manufacturing challenge.

2.2 Changing the content of trade: Manufacturing investment in the place of trade

The bulk of South Africa's exports are raw materials such as iron ore, coal, chrome, manganese, etc. The bulk of its imports, excluding oil and gas, are manufactured products. Therefore, South Africa is exporting its value-add and job-creating potential. This needs to be reversed. South Africa needs to rebuild its manufacturing base so as to create the much-needed jobs this paper calls for, as well as to increase the value of its exports in order to offset the current negative trade balance.

This need not be an inward-looking or isolationist exercise only. In promoting international trade and investment, South Africa needs to look abroad for foreign direct investment (FDI). Decreased import levels can be substituted with increased investment, which would result in a mutually beneficial relationship, with South Africa gaining jobs and a more favourable trade balance and the country's traditional trading partners, should they come to the party, seeing a flow of dividends.

As will be elaborated on later in this paper, manufacturing in South Africa may not necessarily be a net-sum game for investors who have trade barriers with developed economies such as Europe and the United States. Shifting manufacturing processes to South Africa need not serve the South African market only, but may also make Europe and the United States more accessible.

2.3 Beneficiation of raw materials prior to export

As stated above, apart from the subsidised motor industry, South Africa's top ten exports reflect only one other type of manufactured goods, namely machinery. The others are all raw materials, such as coal, gold, iron ore and platinum.

A large proportion of these raw materials are turned into value-added products abroad, only to be reimported to South Africa. An example is steel products: We are exporting large volumes of iron ore, only to reimport that iron ore in the form of iron and steel products to the value of R12,463 billion per annum.

Therefore, South Africa needs to change the content of its export trade from primary commodities to beneficiated commodities. It needs to work with its BRICS partners to achieve this in a mutually beneficial manner. Let's take the steel example again: By smelting the iron ore into steel blocks for export to China, Chinese companies save the cost of shipping waste included in ore. In addition, should the smelting company be a Chinese investor, this can reduce the cost of steel by saving on the shipping costs of processed ore to South Africa. These to-and-fro cost savings can be offset against South Africa's higher manufacturing costs and/or make its pricing even more competitive.

2.4 A focus on national interest vs. mutual interest leads to uncoordinated trade-and-investment promotion

In their quest to satisfy national demand, it is only natural for trade-and-investment promotion agencies to focus on exporting *their* products and attracting investment onto *their* shores. It is correct for them to do so.

However, this paper argues that such an unbridled approach leads to uncoordinated trade-and-investment promotion that does little to advance mutual interest.

The very objective of forming geo-political and trade blocs is to promote mutual interest. Therefore, what is required is a coordinating mechanism across trade blocs that studies the strengths and weaknesses of the individual economies, seeks out complementary sectors, and matches strengths with weaknesses in order to ensure that each participating economy gains from the relationship by having the full range of its needs (or as much as possible thereof) met from within the bloc.

This will ensure that the individual companies diversify their markets and become less vulnerable to economic shifts, and the bloc becomes more competitive and authoritative within the global economy, thus making it more resilient to the pressures of developed economies.

By simply continuing an own-interest approach without any coordination will in the longer term not lead to greater integration and increased trade and investment, and will defeat the initially envisaged objectives of trade blocs.

2.5 Transacting in third-party currency

Trade with the United States is simple and cost-effective: South African rands are converted into dollars; the price is fixed. Trading with India is quite a different story: South African rands are converted into dollars, and dollars are then converted into rupees – double the transaction cost, double the conversion cost. The net result? A less competitive price.

What is needed is a mechanism that eliminates the double cost imposition of third-party transacting. In this regard, South Africa has for example concluded and started to implement a swap agreement with China. We need to build on this to allow for direct settlement in any of the BRICS currencies.

It is hoped that the establishment of the BRICS Development Bank, in an effort to reduce the cost of intra-BRICS trade, will also look into this challenge as a matter of urgency.

2.6 Disjuncture between bilateral preferential trade agreements and trade bloc agreements

In certain instances, BRICS countries have bilateral agreements in place with countries outside the BRICS group that create far superior trading conditions. Although conditions are changing as a result of the free trade area in the Association of Southeast Asian Nations (ASEAN) region, the bilateral agriculture agreement between Australia and China serve as a case in point. Wine exported to China under that agreement is classified as agricultural produce and enters China duty-free. However, other wine products exported to China are subject to a 45% duty. This places South Africa, as China's BRICS partner, at a huge disadvantage to Australia, which is not a BRICS partner.

Therefore, all the bilateral trade agreements of the BRICS countries need to be studied with the objective of comparing them to intra-BRICS arrangements. This will enable BRICS countries to afford their BRICS partners at least the same, but preferably better, benefits than they afford non-BRICS countries.

At another level, a country such as South Africa participates in the Africa Growth and Opportunity Act of the United States, which allows a range of products to enter America duty and quota-free. Similar arrangements are in place with the European Union. Yet, China experiences a number of trade barriers relating to trade with regions such as America and Europe. Cooperation between Chinese and South African enterprises could lead to Chinese manufacturing processes moving to

South Africa to take advantage of such agreements to the mutual benefit of both sides. This will see higher levels of turnover for Chinese enterprises, and the enhancement of manufacturing capacity and job creation in South Africa.

2.7 Measures to promote greater integration and easier movement of people and goods, and maximise bilateral preferential agreements to the benefit of manufacturing capacity across broader trade blocs

As can be concluded from the arguments above, the proposition is that measures be taken to promote greater integration of trade bloc economies. A number of proposals have been put forward, such as the synchronisation of customs codes and the manner in which trade is accounted for, equalising the benefits derived from individual bilateral trade agreements across entire trade blocs, eliminating third-party currency transactions, etc.

The visa regime is another area that requires review. South Africa is currently implementing ten-year visas for business persons who have interests in the country. However, a more thorough evaluation of the visa regime is required. To maintain a competitive edge, easy mobility is vital. Whilst the visa regime between South Africa and China, for example, is quite rigid – requiring in-person applications at remote application centres, formal letters of invitation and other onerous documentation requirements – American and European citizens enter South Africa visa-free. This creates an unfair competitive edge, rendering businesspeople from the United States and Europe more agile and able to negotiate and deliberate in situ, as opposed to the Chinese businessperson, who is constrained by the rigidity of the visa system. Even mundane issues such as site inspections, market studies and policy and regulation assessments require onerous compliance and planning, while the non-BRICS American businessperson can hop on and off the plane at a moment's notice. Not only does the competitive edge go lost, but the time and cost of acquiring a visa is substantial: Applying for a visa, for example, requires taking productive time off work to travel to a visa centre, which may be as far as 2 000 km away. This involves airfares and possibly also accommodation, added to the cost of time and the visa itself.

Therefore, BRICS countries need to simplify business travel within the bloc and ensure equality of treatment across it in order to make it both easier and more cost-effective.

PART 3: THE IMPERATIVE TO IMPROVE NETWORKING AND COORDINATION BETWEEN BOTH PUBLIC AND PRIVATE ENTITIES INVOLVED WITH TRADE-AND-INVESTMENT PROMOTION, AND SOME PRACTICAL PROPOSALS ON STRUCTURAL ARRANGEMENTS TO TAKE THE MANDATE FORWARD

The Contact Group on Economic and Trade Issues (CGETI) is a key platform for BRICS members to exchange views on a range of economic, trade and investment-related issues. The exchange of policy perspectives and priorities lays an essential foundation for enhanced coordination and cooperation among BRICS members on these issues. Under the auspices of the CGETI, a BRICS *Trade and Investment Cooperation Framework*[17] has been established, which aims to locate specific CGETI activities in a longer-term framework for enhanced coordination and possible joint action.

This framework stipulates a number of provisions relating to the coordination of policy and trade-and-investment promotion activities. These pertain to issues such as the promotion of trade, investment and economic cooperation among BRICS members; the encouragement of trade-and-investment links between BRICS countries, with an emphasis on supporting industrial complementarities, sustainable development and inclusive growth; the sharing of policy practices on trade and investment among members; the encouragement of initiatives among BRICS members to support institution-building in order to enhance productive capacity and value addition across various economic sectors, and the enhancing of communication and coordination.

The areas of work covered in the framework include:

- multilateral cooperation and coordination;
- promoting and facilitating trade and investment;
- cooperation on innovation;
- small and medium-sized enterprise (SME) cooperation;
- cooperation on intellectual property rights; and
- cooperation on infrastructure and industrial development.

The framework contains the following specific proposals:

- The enhancing of information exchange on trade-and-investment policies and business opportunities through mechanisms such as websites for trade/investment information-sharing
- The encouragement of BRICS members' trade-and-investment promotion agencies to establish stronger relationships, and the provision of policy support for trade-and-investment missions amongst them
- Expanding cooperation on trade-and-investment promotion platforms, such as trade fairs and expos, to increase opportunities for BRICS enterprises to meet, communicate and cooperate
- Improving the transparency of the trade-and-investment environment in line with BRICS members' respective laws and regulations
- Enhancing communication and cooperation in the areas of standardisation, certification, inspection and quarantine

[17] www.safpi.org/news/article/2013/brics-trade-and-investment-cooperation-framework.

- Enhancing communication and cooperation between agencies responsible for trade remedies

Regarding SME cooperation, the framework calls for:

- information exchange on SME regulatory and supporting policies, as well as the experiences and practices in this area;
- exploring possibilities of signing a BRICS SME cooperation agreement; and
- the encouragement of promotion agencies, such as SME associations and development centres, to establish contacts and hold joint activities, including trade-and-investment expos, human resource training, consulting, seminars, etc.

Clearly, therefore, the architects of the BRICS framework envisaged ongoing cooperation and information exchanges amongst the member states' trade-and-investment promotion agencies, as well as between their respective business associations.

In the meantime, the BRICS Business Council has been established, consisting of a number of prominent businesspersons nominated by each member state. Broadly defined, its task is to guide the economic policy of BRICS from a business perspective.

This paper will however argue that to achieve the objectives set out in the framework, a far broader body of cooperation is required, and that the nature of such cooperation should be ongoing and inclusive, with new mechanisms representing a shift in focus from policy formation to practical implementation coordination.

In the first instance, there needs to be a greater level of cooperation and deliberation between member states' trade-and-investment promotion agencies. I am unaware of a coordinating body in South Africa that brings together the various government trade-and-investment promotion agencies and private-sector-driven chambers of commerce to deliberate, coordinate and execute trade-and-investment promotion policy from a domestic perspective.

3.1 Domestic coordination of strategy, policy and promotion activity

There certainly is a need for trade-and-investment promotion agencies and chambers of commerce to better coordinate their respective promotion activities and policy development functions. This will eliminate duplication of activity, maximise the country's effort, and enable the design of a trade-and-investment promotion programme and policy framework that serves both the national interest and the business community.

A broader coordinating mechanism, comprising the governmental and private-sector organisations tasked with trade-and-investment promotion, needs to be established to address the issues that are highlighted in the BRICS *Trade and Investment Cooperation Framework*. This will serve as a platform to reach national consensus prior to entering into multilateral deliberations. It will also be of great value at the level of implementation: Making the investment and doing the trade envisaged in the policy falls mainly within the domain of the private sector. Therefore, one cannot imagine how implementation will occur without proper cooperation and coordination between the public-sector trade-and-investment promotion agencies and those of the private sector. Even at a very practical level, much can be achieved through simple coordination of activity. A prime example of what can be achieved is the Progressive Business Forum (PBF) approach to trade and investment between South Africa and China. China is a vast country, and no promotion agency can truly claim that they are active and effective across the country. The PBF has therefore opted to work in cities where the South African Department of Trade and Industry (dti) does not. The dti mainly focuses on the primary cities of Beijing, Shanghai, Guangzhou, etc. The PBF, on the other hand, has taken a deliberate decision to rather focus on servicing secondary cities such as Changchun, Wuhan, Hangzhou, etc. By doing so, duplication is eliminated and South Africa's reach is extended across a larger section of China. This is driven on own initiative, though. Given the proliferation of chambers of commerce and trade-and-investment promotion agencies, greater formal coordination can result in much more being achieved. Through such coordination, South Africa would most probably be able to serve the whole of China. Even at such a basic level, however, no such formal coordination is currently taking place in South Africa, because there is no mechanism for cooperation. Finally, greater coordination is also essential with regard to strategy, policy and legislation to ensure message consistency and consistent policy interpretation, and that the same intention and drive is carried out by all organisations involved.

3.2 Multilateral coordination of trade-and-investment promotion activities: A BRICS Trade-and-Investment Promotion Forum as illustration

Very similar to the coordination discussed above, governments around the world have committed their countries to a range of geo-political and trade blocs. As mentioned, this paper focuses on BRICS.

Whilst it can be argued that much has been achieved in relation to the political aspects of BRICS, and that advancement is being made on the macro-economic policy front, it is in a sense business as usual at a practical business level: There is little or no coordination and cooperation taking place between the public and semi-public agencies involved in trade-and-investment promotion on the one hand, and private organisations carrying out such activity on the other. Such cooperation and coordination is virtually absent from all BRICS nations.

More than five years following the formal formation of BRICS, trade between South Africa and Russia and between South Africa and Brazil has only marginally improved, and whilst progress is to be applauded, it remains at disappointing levels when considering the vast potential that exists. Trade and investment between India and South Africa has improved more significantly, and of course, trade with China has exploded. A deeper study into the trade figures, as elaborated on in part 1, reveals that the increased trade and investment with these two countries, and with China in particular, has more to do with increased domestic demand for mineral commodities in these countries, and is not so much the result of the BRICS initiative, which prioritises manufacturing complementarity, infrastructure investment as well as value-added products and services.

From a business perspective, input into the BRICS policy debate occurs through the limited activity of the BRICS Business Council, which, as stated earlier, is a government-nominated body consisting of a limited number of individuals. The broader spectrum of business has no truly effective input into BRICS policy, nor is the BRICS Business Council concerning itself with practical work and day-to-day business initiatives. Once again, the good work of the BRICS Business Council is not overlooked. However, on a more practical, day-to-day basis, a lot more can be achieved if trade-and-investment promotion agencies and chambers of commerce from across BRICS were to forge a relationship to undertake practical activity aimed at achieving the economic ambitions set out in the BRICS founding documents.

What is being suggested is that steps be taken to bring about a focused, driven trade-and-investment coordinating mechanism within BRICS to give practical expression and business content to the objectives set out by the governments of the member countries. This coordinating mechanism, I would argue, should consist of three parts: one fostering cooperation and coordination between trade-and-investment promotion agencies, another doing so between business organisations, and finally, a structure that brings the two groups together.

Currently, individual business organisations across BRICS, such as chambers of commerce, go about their daily task, which includes a number of trade-and-investment promotion activities. They perhaps broadly agree that the BRICS ideal is good, and that support should be given to improving trade and investment between the countries. In the main, however, each organisation pursues its own agenda according to its own interpretation and priorities. At best, some coordination and cooperation exists at a bilateral level. What is needed is that business across the BRICS region develops a forum where it can discuss issues of policy in order to make input into the BRICS policy debate in a coordinated fashion and, more importantly, deal with the practical day-to-day promotion and implementation aspects required from business within BRICS.

Let's, for argument's sake, call it a **BRICS Business Forum (BBF)**. With a view to giving impetus to trade and investment within and between BRICS countries, the BBF could do a number of things. Here are a few proposals:

- From a practical business perspective, it could identify policy and legislative impediments to doing business between the various BRICS countries, e.g. reviewing visa regulations, reconciling merchandise trade data and models for services trade data collection, etc.
- It could commission research into the required policy and legislative adjustments to support economic growth amongst the BRICS participants, e.g. the synchronisation of the customs codes and trade accounting policies, or an analysis of the bilateral trade agreements that the component countries have entered into, with a view to ensuring that the BRICS countries amongst themselves have arrangements in place that are at least equal to, but preferably better than, arrangements between BRICS and non-BRICS countries.
- It could host BRICS-wide trade-and-investment conferences and exhibitions.
- It could design mechanisms to exploit complementary sectors of the various economies as well as the various free trade and bilateral preferential agreements that exist in the countries belonging to the bloc. A country such as China, for example, experiences a number of trade barriers with regions such as America and Europe. Yet, South Africa benefits from participation in AGOA (the United States' Africa Growth and Opportunity Act), whereby a wide range of products manufactured in Africa enter the United States duty and quota-free. Similar arrangements are in place with the European Union. Cooperation between the enterprises of China and South Africa could lead to Chinese manufacturing processes moving to South Africa in order to take advantage of these agreements to the mutual benefit of both sides – seeing higher levels of turnover for Chinese enterprises and the enhancement of manufacturing capacity and job creation in South Africa.

- It could coordinate trade-and-investment promotion activities amongst the various chambers in order to maximise reach and effectiveness.

In summary, trade-and-investment promotion agencies in the BRICS countries need to arrange themselves along the same guidelines outlined in the BRICS *Trade and Investment Cooperation Framework*. Most such agencies are either public or semi-public, and are in some manner involved in the BRICS discourse – in the South African context, for example, via the dti. Whether they are effectively talking to each other as practitioners is debatable, and undoubtedly, a more structured engagement, an **association of BRICS trade-and-investment promotion agencies** of sorts, should enhance coordination and cooperation.

Finally, it is argued that for purposes of better coordination at both a policy and implementation level, trade-and-investment promotion agencies in the two groupings, private and public, across the BRICS bloc interact on an ongoing, structured and coordinated manner. In this regard, the idea of a **BRICS Dialogue Forum (BDF)** is mooted. In addition to business and trade-and-investment promotion agencies, other stakeholders such as research institutions, political formations and the media should be included in order to improve the quality and effectiveness of communication and advocacy on the output. An international example of such cooperation is the Baltic Development Forum,[18] which is a leading think-tank and network for high-level decision-makers from business, politics, academia and media in the region, bringing together stakeholders from diverse sectors to ensure better cooperation, coordination and coherence. This includes the trade-and-investment promotion agencies in that region (who themselves are organised in an association called the Association of Baltic Sea Investment Promotion Agencies).

Note: It may be worth considering setting up the BRICS Development Forum as an extension of the existing BRICS Business Council.

[18] www.bdforum.org.

PART 4: TRADE-AND-INVESTMENT PROMOTION ACTIVITIES – PRACTICAL SUGGESTIONS ON BEST PRACTICE

4.1 Trade delegations: Getting the basics right

It is common practice globally for trade-and-investment promotion agencies to lead trade delegations abroad with the objective to facilitate linkages between likeminded businesses from the various countries they visit, and the businesses that they are leading. This can be very valuable if properly planned and executed. On the other hand, a badly executed visit can result in no more than a joyride for the businesspeople on the delegation – we are very familiar with the term 'business tourist'.

As convenor of the ANC Progressive Business Forum, we have learnt a number of practical, basic lessons over the years. As elementary as it may seem, one cannot overstate the importance of getting the basics right. Failure to do so will result in discontent amongst businesspeople partaking in such delegations, which undermines the noble objectives of assisting the businesses to expand their trade and investment, and quite frankly, can result in fruitless expenditure (which, in the case of public entities expending public funds, requires due care).

Here are five practical tips:

- The normal **format of business matchmaking events** is a business seminar, followed by business-to-business sessions (B2Bs). Often, this is arranged over cocktails or coffee. Visiting businesspeople are expected to engage their local counterparts, exchange cards, and introduce what they are looking for. This does not work.

  Most people are reserved and find it difficult to mingle. In this situation, they are also expected to work the room to search for their counterpart. It may take several interactions before a counterpart is identified who may be remotely interested in what you have to present. Therefore, a situation needs to be created where people are, in a sense, forced to talk to each other. Also, at the most basic of levels, how does one present one's documents (brochures, business plans, project proposals, etc.) with coffee in one hand and a plate of sandwiches in the other?

  The only format that works is what is called the beehive, with a table and a couple of chairs on either side. The visiting company is allocated a well-marked table, and local businesses are given a list indicating at which tables their potential counterparts are sitting. The list should also clearly indicate what the visiting company is looking for: particular products, project investment, etc.

  This may sound elementary. Nevertheless, millions of dollars are squandered annually by trade-and-investment promotion agencies that simply do not get the format of engagement right, whether due to ignorance, space constraints, bad planning, or failure to allow sufficient lead time for the cooperation partners to properly mobilise their enterprises.

- As mentioned above, many organisers simply do not **factor enough lead time into their planning**. They request collaboration partners to organise B2Bs for them, but because they leave the arrangements too late, they do not collect sufficient information to fully understand what the intentions of the delegation are or for them to sufficiently mobilise interested parties. Experience has shown this problem to be widespread. Many a B2B has been held in which information has been given through only at the last minute or not at all. This leaves insufficient time for the B2B organisers to properly sift and pair up good matches. The result is inevitably a free-for-all, let's-see-what-this-is-about event. The danger of this is that enterprises will stop attending the sessions. From personal experience, organisations need to start marketing and calling for participation at least three months prior to departure. At least 30 days ahead of departure, the organisers need to be able to inform their hosts how many enterprises to expect, in which sectors they operate, and what in particular they are looking for. Ensure that delegates supply sufficient information for recipients to get a clear idea of what they are looking for. The Progressive Business Forum has designed a questionnaire for this purpose, which is then collated into a schedule, and forwarded to its collaboration partners abroad. Failure to do so will result in visiting companies not having worthwhile contact meetings, or any meeting at all.

- Trade delegation organisers need to **plan effective programmes**. Two common mistakes are made: (i) Delegations take the fly-in, fly-out approach. They arrive in the city today, rush to a business seminar and B2B, do some shopping, and move on to the next city – no time for follow-up. (ii) Delegations do spend a day or two in the city, first do some tourism activity, possibly a site visit, and end the visit off with a seminar and B2B.

  The correct approach, we have learnt, is to allow at least two days, starting with a seminar and B2B. Following this, the leisure programme can continue. What inevitably happens is that a number of enterprises find synergies, which they then want to explore further. This they can do the next day by visiting business premises and factories, and having more detailed discussions. If not organised on this basis, it simply becomes a very expensive card-swopping exercise.

  Also plan your programme with a second-chance event, so that if the first event does not work out, there is a fall-back position to make up for lost opportunity. Progressive Business Forum programmes always include a second event and/or visit to a trade exhibition.

- **Skill delegates in the art of matchmaking**. In most delegations, one finds delegates who are ill-prepared to participate effectively. They arrive without business cards, enterprise brochures, business plans or investment proposals. They have a broad idea in their head, which they believe they will miraculously convince the other side to be enthusiastic about. Unfortunately, it doesn't work like that.

  Delegates, at least first-time delegates, need to be told how to go about participating in trade missions. Many, if not most, believe it is simply good enough to join the delegation, as the organisers will sort their matchmaking out for them. The reality is that if, for example, the receiving party has not done their homework properly, or host-country enterprises do not pitch on the day, the enterprises' time and money has been wasted. They need to be taught that they should, prior to departure, make some effort to mobilise potential partners themselves, either through the internet or by other means. In many instances, enterprises undertaking the trade missions have found success more so through their own efforts than via the formal channel.

What the Progressive Business Forum is doing is to develop a trade delegation training course, which participants are required to work through upon signing up for the delegation. This web-based course concludes with a Q&A. Whilst one cannot force self-funders to complete the course, this should be compulsory for delegates who receive state or other assistance. At the very least, organisers cannot be accused of leaving delegates to their own devices if this approach is followed.

- Trade-and-investment promotion agencies often make use of consultants to set up one-on-one meetings between businesses during trade mission visits. When making use of consultants, ensure that they have well-functioning networks that they link into.

  Preferably link up with chambers of commerce or other trade-and-investment promotion agencies, who normally have access to larger pools of potentially interested enterprises. These organisations also normally do not charge a per-meeting fee. Usually, they either do it as a service, or at most, recover venue and catering fees, which inevitably works out far more cost-effective. Since they market the event under a larger group of enterprises, chances are that many more companies will respond to the invitation to attend the event, and organisers are not constrained by the expensive fees attached to per-meeting arrangements.

- **Quality rather than quantity**. Many of the aforementioned mistakes are most often the result of promotion agencies being under pressure to prove that they are supporting national objectives. Many take on more responsibility than what they have capacity for. Less is sometimes more. A host of badly executed trade missions can result in no practical business outcome. More may be achieved by undertaking fewer missions, but execute them well. Trade-and-investment promotion agencies need to guard against their best intentions unintentionally turning into business tourism.

4.2 Trade delegations: Focusing promotion activities on SMMEs

Large corporations do not need to join trade missions organised by trade-and-investment promotion agencies to make contact with potential international business partners. They can do it by themselves. Whilst many large corporations do join state missions led by the president or government ministers, this should not be confused with using the platform to be introduced to new business partners. I would suggest that large corporations participating in such visits do so for other purposes, such as to show solidarity with the state, out of patriotism, to sign agreements that have already been concluded, etc. It is the SMME (small, medium and micro-sized enterprise) sector that requires promotion agencies' assistance. They neither have the means nor the contacts to undertake this on their own. More will therefore be achieved by promotion agencies focusing on delegations comprising the SMME sector.

This is not to say that promotion agencies do not have a role to play with regard to the large corporations. The approach should be different, though. More will be achieved by promotion agencies rather sending scouts to foreign countries to seek out projects and opportunities, and to then introduce these to their appropriate members to follow through on.

4.3 SMMEs: Shifting assistance from trade promotion to trade activation

Some countries have taken the initiative to actively support SMMEs. This has also filtered through to their trade promotion activities. South Africa can be cited as such an example.

One of the well-intentioned examples is the country's programme to support small craft manufacturers. Recently, they sponsored a group of such companies to attend a craft exhibition in the United States. Airfares, accommodation, subsistence and exhibition fees would have amounted to a tidy sum, and whilst large orders could possibly be placed, inevitably, these enterprises do not have the capacity to do large-scale international business, but normally serve a niche market not requiring huge volumes. Chances are that there will be only a marginal return on investment (ROI), if any.

Perhaps a more cost-effective means will be for promotion agencies to rather appoint specialised agents who sign up local suppliers to represent them and their products, and to activate sales abroad. These agents could be supported by the promotion agencies at the exhibitions, but ultimately, it would save on the cost of taking a whole phalanx of individuals abroad, with little or no prospect of securing a turnover to warrant the expense. The added advantage will be that once the exhibition is over, the agent remains to use his/her other established channels to push the manufacturer's product.