

PARTICIPATION IN BRICS – A MOTIVATOR FOR ECONOMIC GROWTH

SOUTH AFRICA-CHINA FORUM 2018

1. WELCOME

Colleagues in the local business community, the Chinese business delegation present today, the officials who put this forum together, the Progressive Business Forum team, and members of the executive; good afternoon and thank you for the opportunity to present the case for South African business as a driver for inclusive economic growth.

2. BUSA'S ROLE AND THE NEED FOR ECONOMIC GROWTH

BUSA is the apex business organisation in South Africa, with a diverse membership spanning the length and breadth of our economy. BUSA's membership base, consisting of 61 companies and representative organizations (representing a large number of companies), straddles a multiplicity of sectors in the local economy, with a regional, continental and global reach and footprint. This speaks to BUSA's drive for international co-operation that enables business to trade across borders and without barriers.

BUSA's mandate is underpinned by a drive to see South Africa both transformed and growing, and achieve the objectives of the National Development Plan ("NDP"). BRICS' focus on agribusiness, deregulation, the digital economy, energy and the green economy, manufacturing and skills development is aligned with our work as organised business. We believe that the most effective weapon against South Africa's triple challenges of poverty, unemployment and inequality is inclusive economic growth. In order to deliver sustainable, inclusive economic growth, we need to:

- Drive strategic trade partnerships, including those among BRICS members; and
- Ensure a successful partnership between Government and the private sector.

BRICS therefore has a pivotal role to play in driving inclusive growth particularly given the BRICS areas of focus, namely:

2.1 AGRIBUSINESS

- Where initiatives are focused on eliminating trade barriers, promoting sustainable food production and forest management, enhancing agricultural productivity and capacity

2.2 BLUE ECONOMY

- With inadequate port facilities as a bottleneck to growth, the Infrastructure Working Group is working with BRICS Governments to encourage investments in these facilities, including advanced technologies and equipment to raise operating efficiency and reduce tariffs

2.3 DEREGULATION

- BRICS wants its member countries to consider long-term, multiple-entry visas for bona fide frequent business travelers, with simpler visa procedures for short term tourism and granting of study and work permits

2.4 DIGITAL ECONOMY

- The Digital Economy Working Group aims to double the share of the digital economy in total GDP terms and ensure 100% broadband internet penetration and digital literacy through

implementation of a programme prioritising various technologies, as well as the deployment of a nationwide 5G network and other critical digital infrastructure

2.5 ENERGY AND GREEN ECONOMY

- In the context of rising demand, diminishing fossil fuel supply and concerns about climate change, the objectives of the BRICS Business Councils' Energy & Green Economy Working Group are to:
 - Advance clean energy in BRICS countries through the promotion of relevant programmes aimed at harmonising a sustainable energy source across the BRICS group
 - Set up a clean energy fund within the New Development Bank (“NDB”) to promote clean energy project finance

2.6 MANUFACTURING

- For BRICS, the fundamentals necessary to improve manufacturing capabilities are: trade facilitation and trade equality, as well as the reduction of restrictive trade policies to promote global trade development.

2.7 INFRASTRUCTURE

- The Infrastructure Working Group suggestions included the prospects for joint bids by BRICS enterprises in international infrastructure projects and encouraging trade/investment promotion agencies to establish stronger relationships

3. MEERKAT TELESCOPE

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Congratulations to Minister Kubayi-Ngubane on the successful launch of the 64-dish MeerKAT radio telescope array in the Northern Cape last week, which brings South Africa a step closer to completing the largest radio telescope in the Southern Hemisphere, the Square Kilometre Array, which is being built in a remote part of the country that is in desperate need of investment and development.

The initiative is an excellent example of how opening South Africa's borders and easing regulatory burdens can be a boon for the country's objectives of attracting foreign direct investment and highly-skilled individuals. Ten countries, spanning Europe, Asia (including China) and North America are parties to this project, including participation of a number of African states.

Of the BRICS countries, China spends the most on R&D. This R&D spend tracks or is on par with those of Japan, the US, Singapore, among others. Consequently, China has seen significant growth in innovation across multiple sectors. It is clear therefore that countries which spend a high proportion of their GDPs on R&D are ahead of the tech curve and best prepared for the Fourth Industrial Revolution.

4. GLOBAL ECONOMIC BACKDROP AND THE REQUIREMENT FOR INCREASED COOPERATION

Today's forum takes place against the backdrop of the recently concluded BRICS Business Council and Business Forum, and the BRICS Annual Meeting, which comes to an end tomorrow. These platforms and structures within the BRICS network are aimed at solidifying trade relations among the four peer countries: Brazil, Russia, China, and, of course, this year's host, South Africa. BRICS, at its core, is seized with the question of how best to attain economic growth by driving strategic trade partnerships; while also pursuing developmental goals. These objectives are compatible with those of South Africa's business community, represented by BUSA.

These important events on the economic and trade calendars are taking place at a time when the global economy is undergoing structural shifts. The scale and speed of economic globalisation, aided by the expansion of innovative technologies, has intensified in recent years, yet specific actions by several advanced economies have brought about negative effects, evidenced by rising tariff barriers in the United States, the protracted and seemingly complex withdrawal of Britain from the European Union under Brexit, and rising nationalism and geopolitical tensions, driven by unprecedented anxiety and polarisation in the US, Middle East and certain European countries.

Much of the anxiety has coincided with the global economic recovery, bolstered by rising investment activity on the back of the dissipating impact of the 2014 oil price collapse on commodity-exporting, emerging markets and developing economies. There has never been a more opportune time for a concerted effort to overcome obstacles to a more inclusive, just, equitable, democratic and representative international economic order. BRICS has a key role to play in this regard.

5. BRICS' GLOBAL CONTRIBUTION

We acknowledge the increasing relevance of BRICS in the global trading and investment environment:

- BRICS countries have a combined GDP of US\$18.5 trillion, comprising c.23% of global GDP (2017)
 - China contributed the lion's share of this, contributing c.US\$11 trillion to global GDP
 - In turn, South Africa contributed only US\$249 billion to global GDP
 - South Africa remains an anomaly in BRICS because the country's growth lags those of its partners in the bloc in GDP terms
- BRICS contribution to global import and export value amounted to US\$2.3 trillion and US\$2.9 trillion, respectively, over the 2016 – 2018 period
 - BRICS countries accounted for c.15% of global imports and c.18% of global exports in 2017, recording an aggregate trade surplus
- BRICS countries contribute c.12% of global FDI investment
 - Intra-BRICS investment takes up only c.6% of all the BRICS investment abroad, signalling tremendous potential for expansion
 - In 2016, intra-BRICS investments amounted to c.US\$40 billion
 - South Africa received c.US\$2.5 billion from investors in BRICS countries while making investments valued at c.US\$1.6 million
 - In 2017, investment flows between South Africa and BRICS amounted to c.US\$2.6 million (up US\$1 million), driven by the following:
 - Joint ventures between the companies from BRICS countries;
 - South African companies importing Plant and Machinery, with the technology and know-how from India and China

6. CHINA REMAINS THE LEADING BRICS CONTRIBUTOR

China's phenomenal GDP has strengthened its economic muscle and negotiating power on the global stage and within BRICS. The scale and size of its economy are supported by a population of more than one billion. To put this in context, the entire population of South Africa can fit into the centrally located province of Hubei in China, and our economy roughly equates to that of a province or region in China. Furthermore, China's One Belt One Road initiative, an estimated US\$5 trillion infrastructure spending programme spanning over 60 countries across Asia, the Middle East, Europe and African, is expected to reshape global trade routes and economies.

To demonstrate China's might and relevance in the global framework, the world was plunged into panic when the Chinese economy's growth rate dropped below 10%. The slowdown in steel demand from China, symptomatic of a cooling in infrastructure projects and waning demand in construction, is still being felt in South Africa. South Africa's biggest steel producers, as well as the downstream industry, are still reeling from the after-effects of the slump in Chinese demand. Steel mills to the south of Johannesburg have lost their attractiveness and are no longer the focal points of micro-economies in the areas where their operations are based.

At the height of the crisis, industry, government and organised labour joined hands and put their heads together to try and find solutions and ways in which to retain jobs and keep mills going in difficult and trying conditions. As this segment of the economy was showing signs of a moderate recovery, it was presented with another challenge: ad valorem duties imposed by the US. Trade and Industry Minister Rob Davies was in the US last week to request the American government that it exempt South African steel and aluminium producers from tariff duties. Thousands of jobs are at risk in an economy that needs to generate revenue, and a country contending with a high unemployment rate.

Even the global commodities super-cycle, widely credited for South Africa's previous high GDP growth rates, was fuelled and sustained by China's huge appetite for our commodities.

7. CHINA IS AN IMPORTANT TRADING AND INVESTMENT PARTNER TO SOUTH AFRICA

- China is South Africa's top ranking export destination as well as import supplier since South Africa joined BRICS
- Total investment flows between South Africa and China during 2017 amounted to c.US\$4.4 billion, with South Africa recording an investment surplus of US\$2.9 billion
- South Africa's FDI flows into China amounted to c.US\$706 million from 2013 to 2017 period, across five investment projects
- From 2012 to 2017, China invested in 34 projects in South Africa to the value of c.US\$3.6 billion
- China was the largest investor in South Africa among the BRICS member countries, with most investments (15 projects) in manufacturing activities
 - Most of these projects were new investments
- Chinese participation in South African M&A activity has escalated in recent years. Notable transactions include:
 - Jinchuan Group acquisition of Metorex Limited
 - Sinopec's proposed acquisition of 75% interest in Chevron South Africa and 100% interest in Chevron Botswana
- On Tuesday (24 July), South African government signed several agreements with China relating to new investments totaling US\$14.7 billion, including:
 - State-owned China Development Bank agreed to lend US\$2.5 billion to Eskom to complete the Kusile coal-powered power station project in Mpumalanga
 - Industrial and Commercial Bank of China ("ICBC") agreed to lend US\$300 million to Transnet
 - This furthers ICBC's investment mandate in South Africa following its acquisition of 20% of Standard Bank in 2007

8. SOUTH AFRICA'S ROLE WITHIN BRICS IS GATHERING MOMENTUM

South Africa formally joined BRICS in April 2011, but its trade relations with China predate this four-member bloc. A year later, in August 2012, South Africa adopted the NDP as its economic blueprint plan to claw itself out of a growth slump and address the triple challenges of inequality, poverty and

unemployment in its quest to achieve inclusive growth. At the time, the NDP provided a bold vision about what a future South Africa would look like and gave us a roadmap of the steps that needed to be taken to attain the desired end-state.

The NDP's tagline is "*our future – make it work*". But how are we preparing the ground now to render it fertile and conducive for South Africa's to attain its NDP goals. In many respects, the NDP was ahead of its time in forecasting a future South Africa. It identified South Africa's standing and stature in the global community as waning and foresaw the country's membership to BRICS as a platform through which it could restore its good standing on the world stage.

Unfortunately, a lack of political will and inconsistent policy direction have thus far rendered the NDP to a concept piece, instead of a living, breathing policy document. A segment in the document reads: "*The South African state will be capable of implementing programmes and policies effectively and consistently, at least in priority areas. Accountability, combating corruption and professionalising the public service are of central importance. The country must exercise stronger oversight of public entities*". BUSA acknowledges that business has a critical role to play in achieving these objectives.

We have all witnessed the near-seismic vicissitudes in our country, brought about by the leadership changes at Nasrec in December 2017, when the ANC, through President Cyril Ramaphosa, ushered in what is now often referred to as a "New Dawn". The New Dawn has catalysed renewed hope and heightened expectations that South Africa would return to sound economic policies which would put the country back on a growth path.

Business acknowledges current efforts to address the fundamental challenges in state-owned entities, particularly Eskom, which is too big and too strategic to fail – not to mention the massive risk it poses to the fiscus because of all the Government-guaranteed debt it holds. Eskom is one of the recipients of significant Chinese financing. This is commendable for an entity which had extreme difficulty raising funds in the market

In all the sectors covered in today's forum - construction, ICT, agriculture and energy – here in South Africa, we are faced with policy uncertainty and complexity, which are at odds with the BRICS vision of easing trade and opening new growth paths. We however believe that there is significant scope to leverage the resources available across BUSA's vast membership base, in collaboration with our counter parts in China, and expand the extent of co-operation amongst our BRICS partners.

9. CONCLUSION

In conclusion as President Xi Jinping quoted yesterday:

"We are facing a choice between cooperation and confrontation, between opening up and a closed-door policy, and between mutual benefit and a beggar-thy-neighbour approach"

President Ramaphosa proposes that the Brics countries, which currently represent 23% of global gross domestic product, should help shape a system based on cooperation and open economies, which provided a "sure way" for making progress in science and technology and productivity. Specifically, he believes:

"We need to increase investment between Brics countries, particularly in the productive sectors of our economy"

Opportunities for intra-Brics investment and trade would be enhanced by the proposed African Continental Free Trade Area, which would provide access to a market of over 1-billion people and a combined GDP of over \$3-trillion.

"The value of this free trade area will only be fully realised through massive investment in infrastructure and skills development. This presents opportunities for Brics countries, some of whom have extensive experience in infrastructure development and are world leaders in education and skills development."

Leveraging the resources of the private sector, through BUSA, in collaboration with our Chinese counter parts and mirroring the commitments made yesterday will go a significant way towards achieving our full potential.