Trade Policy Politics and Governance in BRICS: A South African Perspective

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Introduction

- The structure of my presentation will be as follows:
  - Rationale of the Study
  - Background
  - Situational Analysis
  - BRICS Governance
  - BRICS Trade
  - BRICS Trade Policy with South Africa
  - Recommendations
Rational of the study

- The study focuses on;
  - BRICS governance in terms of Bertelsman Stiftung Sustainable Governance Indicators.
  - BRICS Trade patterns with South Africa.
  - Trade policies between South Africa and the BRICS.
  - Policy recommendations on BRICS in World trade and with South Africa.
Background
Background

- The BRICS originated from the work of Goldman Sachs (2001).
- Visible structural changes in the BRIC economies from 2001-2008.
- Advocacy against the long standing bias of developed countries in international matters, World Bank and the International Monetary Fund.
- Numerous proposals of South Africa on the interest of developing African states in the international arena prompted BRICS inclusion in 2011.
- The main objective of BRICS was to encourage commercial, political and cultural cooperation amongst BRICS member countries, and trade is one of the key contributors.
Situational Analysis

BRICS Governance
Situational analysis

**Governance**

- BRICS-
  - Social and political instability emanating from paramount social inequality and widespread corruption, inadequate infrastructure, demographic challenges on labour markets, poorly functioning social welfare systems as well as inadequately funded research and development capacities (Azahaf & Tischler, 2012:3).
  - Bertelsman Stiftung conducted a fifteen policy indicator based inventory on sustainable governance and 7 are used in the analysis.
  - The SGI indicators are targeted at EU and OECD countries, however Azahaf & Tischler (2012) made an extra mile in documenting the BRICS governance capabilities.
  - The comparison analysis produced results on the determinants of success and structural deficit in the steering capabilities of the political acumen of each nation.
Governance comparison

- **Russia’s**
  - Worst steering capabilities amongst the BRICS nations.
    - Poor in government strategic planning.
    - Adverse political patronage.
    - Absence of sustainable long-term government policy.
    - Absent of institutionalised monitoring and reform capabilities.

- **China**
  - Stable political and social system strained by social inequality, growing population, environmental challenges, fluctuating asset prices, corruption and legal uncertainty.
    - Varying regional differences in governance quality, with resultant negative implications on public service quality in outlying areas.
    - Barriers to free media and dependence of the civic society of the government.
    - High expectancy of economic growth from unexploited potential in governance systems, institutions and key policy areas.
Governance comparison

- **India**
  - Nation’s ability to overcome prominent social anomalies.
  - Successful steering capacity attributable to the strategic role played by the government in lobbying consulting groups, technical expertise as well as research and development.
  - Rampant corruption which required oversight mechanisms to be eradicated.

- **South Africa**
  - Ranked third in BRICS on governance capabilities.
  - Significant changes in institutional arrangements as well as enhancement of strategic planning capacities.
  - Research and development from academic expertise and civic society groups on policy making processes.
  - Massive achievements in inter-ministerial coordination as well as in policy implementation and communication policy.
  - Incidences of corruption, miss-appropriation of funds in the labour market and various sectors of government.
  - Greater expectations on service delivery due to opposition politics.
Governance comparison

- **Brazil**
  - Congruent with South Africa and India, the Brazilian civic society was very important as a sustainable governance tool.
  - Addressed well issues of social inequality and poverty through the involvement of the civic society.
  - Inter-ministerial coordination and policy steering operated so well depending on specific policy targeted areas.

- Progress hampered by inadequate infrastructure and wage inequality brought about by educational differences.
- Active minimum wage policy was implemented to fight wage inequality.
- Noted challenges associated with unsustainable exploration of resources, to include pollution and environmental degradation.
Situational Analysis

BRICS Trade
BRICS trade

- BRICS nations complement each other’s trade.
  - South Africa, Brazil and Russia are champions of energy and natural resources sectors.
  - China is etiquette in manufacturing making full use of readily available cheap labour and raw material from Brazil, Russia and South Africa.
  - India specialises in pharmaceuticals and sophisticated technology in software technology and outsourcing of business processes (Mathur & Dasgupta, 2013:16).
South Africa leading exports with BRICS 2011-2015

- Raw material, semi-finished products and fruits.

- Coal related products, iron ores and concentrates and ferro-alloys dominated the top export list to Brazil, India and China.

- Fruits in varying varieties including grapes dominated the exports to Russia, with trucks, motor vehicles and manganese ores also prevalent (ITC, 2015).
South Africa leading imports with BRICS
2011-2015

- **Brazil**
  - household items, meat and edible offal.

- **Russia**
  - Mineral fuels, oils and distillation products and agriculture commodities, including wheat and meslin; industrially manufactured commodities such as synthetic rubber, ferroalloys and coal related products.

- **India**
  - Cars, diamonds, medicaments, petroleum oils and rice. The imports intensified with the formalisation of the BRICS, owing to relaxation of trade and import tariffs.

- **China**
  - Electrical equipment, data processing machines, motor spare parts, televisions and footwear. The imports were more diversified than of the other BRICS members.
Concluding remarks

- South Africa trade composition and volumes with the BRICS is an indication of faulty lines in BRICS trade policy barring the fact that the BRICS have an almost similar resource base and are involved in intra-industry trade.

- Intra- Industry Trade
  - Countries endowed with similar resource base trading with each other (Stiglitz & Rodrick 1979 and Krugman 1979)
BRICS Trade Policy with South Africa
BRICS trade policy with South Africa

- Membership to the World Trade Organisation (WTO) is considered as a major stride towards free and preferential trade.

- South Africa specific objectives of joining the WTO was of gaining access to preferential markets of developed nations.

- WTO Trade policy debates are addressed through the WTO specific agenda named after the place of implementation.

- Examples; The Uruguay round implemented from 1986 – 1994 and the Doha round (2001-Present)
Disadvantages to South Africa

- **Uruguayan Round**
  - South Africa participation was in the capacity of a developed country, as such there was an endorsement for extensive cuts on the maximum bound tariff rates.
  - Export restraints on South African exports to developing nations exceeded those destined for developed countries.

- **Doha Round**
  - No significant changes
  - BRICS entered into various trade agreements outside the bloc which were detrimental to South Africa, who ended up facing negative preference margins in the group (WTO, 2016a).
  - With the exception of Russia who joined the WTO in 2011, the 2008 (Doha Round) average tariffs imposed on South African exports to the BRIC where about 8 percent in China, 12 percent in Brazil and 7.7 percent India.
Doha Round continued

- In contrast, average tariffs rate by advanced economies were lower, with the European Union (EU) imposing at least 0.3 percent, the US, 1.7 percent and Japan, 3.5 percent (WTO, 2016a).

- No formal gatherings to revise the binding rules and tariff preferences resulting in stalling of the Doha round.

- Rise in the United States and Europe pact on Transatlantic-Pacific Partnership and the Transatlantic Trade and Investment initiatives.
Conclusions and Policy Recommendations
Conclusions

- The overall growth trajectory in BRICS should not permit to overlook the need for reform in key policy areas associated with governance structures.
- There is need for a reliable legal framework which suffices corruption control and effective policy implementation.
- Stalling in WTO Doha round and the rising of TTP and TTIP trade arrangements are seen as major challenges to the BRICS trade system.
Policy recommendations
BRICS in World trade

- The BRICS ought to;
- Remove numerous trade barriers.
- Advance regional and interregional economic integration as their top priority.
- Leverage the terms of global trading by engaging Britain in trade dialogue citing BREXIT (Britain exiting the European Union).
- Heighten trade discussion with the TTIP and TPP in their regions to avoid isolation.
Policy recommendations
South Africa in BRICS

- Tariff reforms on products that make up a large share of South African exports.
- Specialised tariff reduction through the SACU–MERCOSUR trade agreements.
- Exporters should venture in the renewable energy sector as a political leverage for the competing sectors in the BRICS.
- Reduce the overall tariff rates through a simple tariff structure, but still maintaining protectionism in critical sectors.
- Retain protectionism in sensitive sectors as it grants free market access to partnering countries auspices of comprehensive bilateral agreements.
- Accelerate regional integration in Southern Africa and within the ECOWAS, COMESA and SADC tripartite, at the same time promoting the harmonisation of the US and EU through membership in AGOA and the EPAs, giving South Africa a chance of benefiting from the TTP and TTIP trade negotiations.
“The review does not intend to discourage BRICS trading, but rather improve on existing trade policies at the same time enhancing employment and capacity utilisation.”