
OVER THE RAINBOW

South Africa is redefining its role on the world stage. Since Nelson Mandela led the *Rainbow Nation's* political miracle in the 1990s, a new global realism has settled in. Now, South Africa's seat at the table of the emerging market elite gives it a platform to showcase Africa's untapped economic potential

Finance Minister Pravin Gordhan,
in an interview with Brunswick's Marina Bidoli
and Jeremy Michaels, discusses Africa's unfolding narrative



Just over a decade ago, *The Economist* had a map of Africa on its cover with the headline, “The Hopeless Continent.” Last November, in setting out its strategy for Africa, the World Bank took a very different tone, stating that “Africa could be on the brink of an economic takeoff, much like China was 30 years ago, and India 20 years ago.”

The World Bank noted how well Africa had weathered the 2008-09 financial crisis, and how the continent was, by and large, following prudent economic policies and making gains on development goals. The continent “has an unprecedented opportunity for transformation and sustained growth,” the report concluded, noting how Africa is increasingly attracting private sector investment.

Yet, a bleak perception of the continent – so-called *Afro-pessimism*, a long-standing notion that Africa’s problems are too great to overcome – has proved hard to dislodge. This was clearly demonstrated in the run-up to the 2010 FIFA World Cup, the quadrennial soccer tournament held in Africa for the first time last year when South Africa hosted the finals. To the shrill media coverage that often precedes such events, with invariable predictions of impending financial disaster, there was an added dimension that focused on the perception of Africa as a violent place where efficient organization was impossible.

As John Battersby, UK Country Manager of the International Marketing Council of South Africa, says, “The mainstream media has dominated the

grand narrative for the past four decades and through selective – rather than inaccurate – reporting, has buttressed Africa’s negative trends at the expense of its potential.”

In the end, South Africa’s World Cup venture paid off. The event was widely hailed as a success and proved to be a turning point, at least in terms of altering perceptions of the country.

South Africa’s finance minister, Pravin Gordhan, recalls the turnabout in the narrative. “The stories in some international media before the World Cup – bloodshed, mayhem, and so on – well, hundreds of thousands of visitors came here and got a completely different view of South Africa,” he says, speaking to the *Brunswick Review* from his parliamentary office in Cape Town. “After the World Cup, wow, what a difference. Whether it is at investor meetings, meetings in Davos, or wherever, perceptions have changed. Afro-pessimism is declining.”

Another page in Africa’s unfolding story was turned when South Africa’s President, Jacob Zuma, was invited to attend a meeting of the so-called BRIC countries (Brazil, Russia, India, China) when China chaired a summit in April on the southern island of Hainan. The BRIC group has evolved from the original narrow designation as four emerging economic powerhouses to a self-defined political club with broader ambitions. It is in this latter context that South Africa’s inclusion – adding an “S” to BRIC – has been seen as deeply significant. ➤

PRAVIN GORDHAN

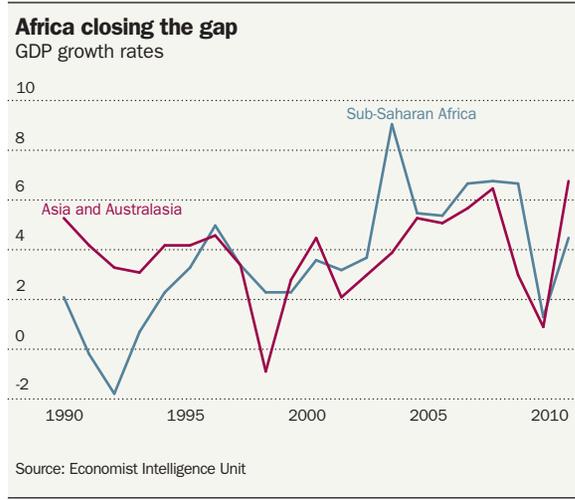
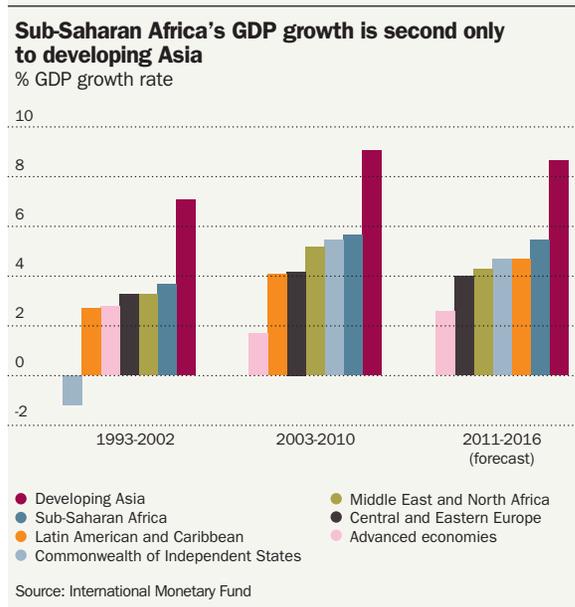
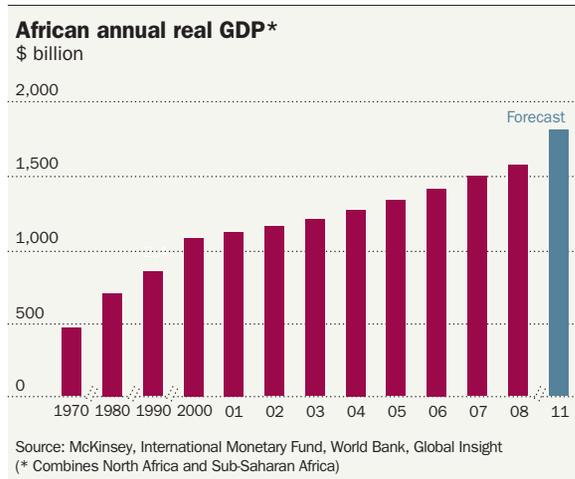
Minister of Finance, Republic of South Africa

Pravin Jamandas Gordhan was born in 1949 in Durban, South Africa. He was an executive member of the Natal Indian Congress (formed by Mahatma Gandhi in 1894) and while he was working in the political underground in the 1970s and 1980s, served three spells in detention without trial. After the release of Nelson Mandela from prison and political reforms in 1990, Gordhan participated in the negotiations for a future

democratic South Africa and served as co-chair of the forum tasked with negotiating the interim South African Constitution, which led to the first democratic election in April 1994. Gordhan became Commissioner of the South African Revenue Service in November 1999 and is credited with leading a major overhaul of South Africa’s tax and customs administration. He was appointed Minister of Finance in May 2009.



Africa shows accelerating economic growth, putting it on the global investment map



In *Foreign Policy Journal*, commentator Jack Smith wrote, “The addition of South Africa was a deft political move that further enhances BRICS’ power and status. African credentials are important geopolitically, giving BRICS a four-continent breadth, influence, and trade opportunities.”

While there has been some debate about its qualification in terms of the original BRIC criteria, the inclusion of South Africa has both economic and political dimensions. In both spheres, the country has credentials as a regional leader, especially since the end of apartheid.

“The term BRICS is no longer purely a market collective,” Dr Lyal White, director for the Centre for Dynamic Markets at the Johannesburg-based Gordon Institute of Business Science, explains. “It has taken on a life of its own and carries symbolic value and political weight in a changing global order.”

Indeed, this is a view shared by Jim O’Neill, Chairman of Goldman Sachs Asset Management, who proposed the original BRIC thesis a decade ago (see interview, page 27). In the *Financial Times* last August, O’Neill wrote, “After South Africa’s successful hosting of the soccer World Cup, more and more people are focusing on the opportunities of Africa.” While recognizing that there is much to do in economic and social development, O’Neill concludes that “if Africa wants to be thought of as a BRIC, it should not be as hard as it is often made out.”

The point is not lost on South Africa’s finance minister, who sees the country representing a broader regional interest in the same way other BRICS members do. “South Africa is the largest economy on the African continent and has been very much connected to the rest of Africa for a long time, whether in a business sense, diplomatic sense, peace-making or economic development sense,” Gordhan says.

On the economic front, the BRICS platform is useful to discuss both what Africa must do to attract investment and what it requires from prospective development partners. Gordhan explains, “We must convey the message that there is a lot of hope and optimism that comes with BRICS, but that it is going to take a huge collective commitment to one another and to a particular development philosophy which we share.”



African countries want investment partnerships that go well beyond the simple resource extraction of old. “Not only is Africa making its resource base available to the world but it must have the opportunity to add value to those resources,” says Gordhan.

African countries will provide the right climate to ensure attractive returns on inward investment, he says. At the same time, they will want to ensure that inward investment has long-term benefits by helping to build infrastructure, for example, or to provide employment and ensure “better life prospects” for African citizens.

South Africa’s BRICS membership is a reflection of a broader shift in world economic and political systems, whereby most growth in coming decades is expected to come from emerging economies. They also will increasingly do business among themselves and promote their collective interests.

As Tim Cohen, a columnist on South African newspaper *Business Day* recently put it, “BRICS countries are motivated by two desires: to create a new political axis and to increase trade outside traditional patterns, sometimes called ‘south-south’ trade. In both these efforts, South Africa fits.”

South Africa’s emerging role as the gateway to developing Africa comes at a propitious time. “The world is experiencing a seismic shift in power from US predominance to a new multipolar world,” says Dr Jakkie Cilliers, Executive Director for the Institute of Security Studies, a South African think tank. He says that improvements in political and macroeconomic conditions are fueling a new found confidence in Africa. “We are living in an

unprecedented era of peace and prosperity,” he says. “Africa is a more peaceful place, even if TV images tend to focus on the immediacy of situations.”

In the past few decades, Africa has taken significant strides towards more democratic governance

and more transparent economic systems. It has also started to dismantle some of the more crippling bureaucratic barriers to trade and investment.

The opportunities in Africa as a whole are comparable to those in other BRICS, a fact that is attracting more and more attention. *Lions on the Move*, a report by McKinsey Global Institute last summer, pointed out that Africa was the world’s third fastest-growing economic region (from 2000-2008) and that collective GDP is expected to

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*Pravin Gordhan,
Finance Minister, South Africa*



OUT OF AFRICA: A CONTINENT BY NUMBERS

- ✦ By 2020, more than half of African households will have discretionary spending power.
- ✦ Half of all Africans will be living in cities by 2030.
- ✦ African growth will be driven by consumer facing industries such as retail, telecoms and banking, as well as infrastructure-related sectors, agriculture and resources.
- ✦ Africa has the world's fastest growing and youngest population.
- ✦ Africa's working age population exceeds 500m. By 2040, this will increase to 1.1bn.
- ✦ Africa's working-age population will exceed China's and India's by 2035.
- ✦ Foreign direct investment in Africa increased from \$9bn in 2000 to \$62bn in 2008 – almost as large as the flow to China when measured relative to GDP.
- ✦ South Africa is the world's 26th largest economy and the largest in Africa.
- ✦ South Africa has the world's largest known mineral reserves (valued at \$2.5 trillion), followed by Russia and Australia (each with under \$1.6 trillion).
- ✦ BRIC-Africa trade grew eightfold from \$22bn in 2000 to \$166bn in 2008.
- ✦ "South-south" trade represents more than 50 per cent of Africa's total.
- ✦ China's trade with Africa grew 10-fold to \$107bn between 2000 and 2008.

Sources: McKinsey *Lions on the Move: The progress and potential of African economies*; Jakkie Cilliers; Barry Hughes and Jonathan Moyer of Institute for Security Studies *African Futures 2050*; Citibank; Standard Bank; CIA *The World Fact Book*; China's Ministry of Commerce

rise to \$2.6 trillion by 2020, up from \$1 trillion in 2008. With a working population set to explode to 1.1bn by 2040, Africa's workforce would then be larger than China's or India's. Already, its urbanization levels are above India's and close to those of China.

Driven by the commodities boom, recent investment has focused on minerals and energy resources. China, which is relatively resource-poor and needs to fuel its own growth at home, is today the biggest investor on the continent and has become South Africa's largest trading partner.

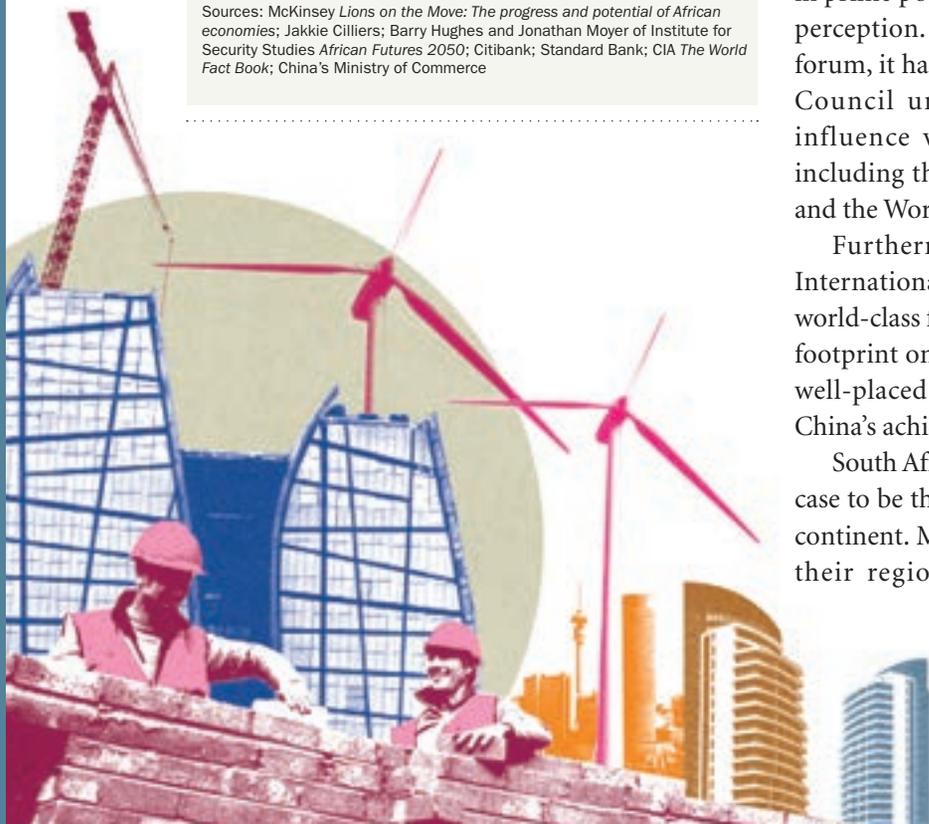
However, Africa's growth story is about more than just resources. Thriving cities and a rapidly growing middle class are driving demand for all kinds of consumer goods, banking, telecoms, food, roads, power, and housing.

The beverage industry is an indicator of the spread of affluence in emerging markets. A vivid example of how fundamentally markets are shifting is the Snow brand of beer. Virtually unknown in the developed world, this China-brewed brand – from SABMiller, whose origins are in South Africa, with partner China Resources Enterprise – is today by far the world's best-selling beer by volume.

So, the opportunities for Africa have never looked better, though there is still much work to do in lifting the continent's reputation. South Africa is in prime position to ensure a lasting change in this perception. As well as its new voice in the BRICS forum, it has a seat on the United Nations Security Council until the end of 2012 and growing influence via other multilateral institutions, including the G20, International Monetary Fund, and the World Bank.

Furthermore, as Battersby of South Africa's International Marketing Council, notes, "With its world-class financial sector and extensive corporate footprint on the African continent, South Africa is well-placed to lead an African miracle similar to China's achievement over the past 30 years."

South Africa's role as a financial hub reinforces its case to be the investment gateway to the rest of the continent. Many foreign investors have established their regional headquarters in South Africa,



including leading Chinese development and construction banks – based in the heart of Sandton, Johannesburg’s financial district – which provide cheap financing to the continent.

Nonetheless, South Africa’s challenges should not be underestimated, not least because the emerging market story is, of course, not one in which countries merely strive for mutual cooperation. BRICS members and African nations all compete head on for trade and investment. In terms of utilizing its Africa leadership role, White of the Centre for Dynamic Markets, says, “Our window of opportunity is narrowing fast.”

The South African government is well aware that it must use its newfound prominence via BRICS and other international forums to make the case for Africa on a broad range of issues, such as the reforming of global economic governance, climate change and fair trade.

South Africa’s latest economic plan – *New Growth Path*, unveiled last November – received mixed reviews, but among its admirers was Joseph Stiglitz, the Nobel Prize-winning economist, who praised its emphasis on job creation and spreading wealth more widely.

This is the tone that South Africa wants to set in its international role, too. Gordhan says, “With the *New Growth Path* and a greater focus on growth, jobs and equality, both in South Africa and the rest of the world, there are more opportunities and a clearer focus on certain sectors of the economy. In that sense we are much better prepared than we were.” There is also the sense that the world is now much more receptive to the investment case for Africa, perhaps even for a new *Afro-optimism*.

Pravin Gordhan and **Maite Nkoana-Mashabane** were interviewed by Marina Bidoli and Jeremy Michaels.

Marina Bidoli is a Partner in Brunswick’s Johannesburg office. Prior to joining the firm she headed group communications at a petrochemicals company and was the business and technology editor of a leading South African business magazine.

Jeremy Michaels is a consultant to Brunswick’s Johannesburg office. He advises on communications strategy and public affairs, with a particular focus on the mining sector. Before joining Brunswick, he was head of communication and international relations for SA’s ministry of mineral resources and a journalist.

GATEWAY TO A CONTINENT

South Africa’s Minister of International Relations and Cooperation, **Maite Nkoana-Mashabane**, spoke to the *Brunswick Review* after the first BRICS summit held in China in April

What did you take away from South Africa’s first BRICS summit in China?

Let me start by saying that South Africa was really pleased to be invited by China, on behalf of all BRIC member states, to become a full member of BRICS. This fits in squarely with our approach of ensuring that emerging powers and other countries of “the south” actively pursue their interests through strong engagement. Under President Jacob Zuma’s leadership, we went to our first BRICS meeting with several objectives in mind. Foremost amongst those were, as a new member, to commit to the BRICS processes and related mechanisms, to identify and leverage opportunities for South Africa’s developmental agenda, to enhance the African Agenda, and to cooperate with other emerging market economies. Both the declaration and action plan issued by the leaders at the end of the summit underscore the fact that BRICS is an extremely important grouping which will assist South Africa and the African continent to achieve the objectives which we have set for ourselves, including global peace, stability and security as well as economic growth and sustainable development.

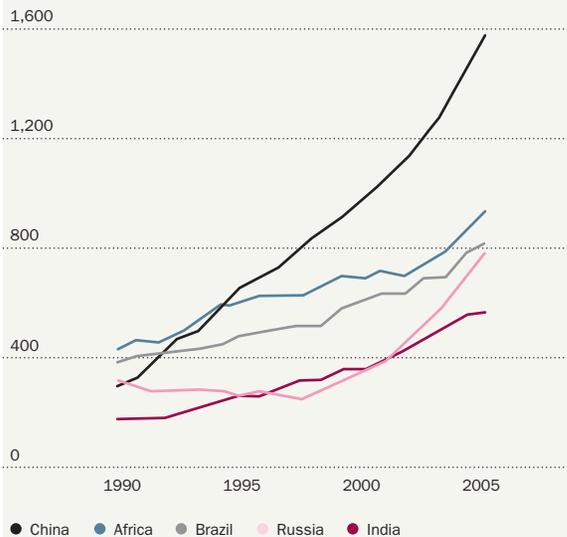
What does South Africa bring to BRICS?

As the only African member within BRICS, we represent a continent with enormous untapped growth potential. South Africa’s membership makes it more representative and provides room for growing partnerships between the BRICS member states and the African continent. As South Africa is widely considered to be Africa’s economic powerhouse, we are ideally placed to act as the gateway to the rest of the continent. 

Africa's emerging middle class

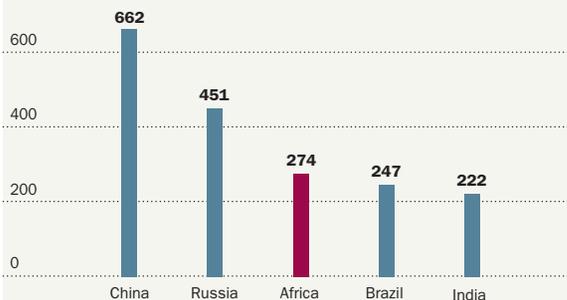
Africa's private consumption is second only to China among developing regions...

2008 \$bn



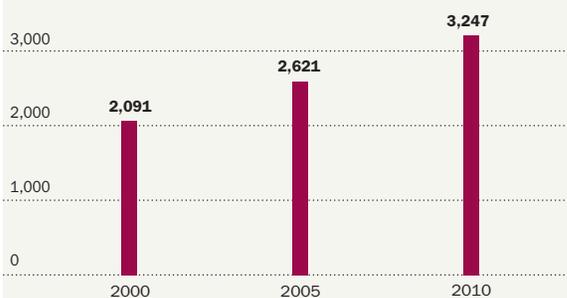
...with greater absolute growth in consumption than Brazil or India...

Private consumption growth, 2000-08 \$bn



...and a more prosperous African consumer emerging

GDP per capita, \$, purchasing power parity



Source: Global Insight; UNCTAD, McKinsey



South Africa was invited to join the first BRICS summit in China earlier this year. From left to right: Manmohan Singh, India's Prime Minister; Dmitry Medvedev, Russia's President; Hu Jintao, China's President; Dilma Rousseff, Brazil's President; Jacob Zuma, South Africa's President Photograph: Getty Images

In light of this, how do you make the investment case for South Africa?

Besides abundant natural resources, South Africa has the most developed financial, legal, manufacturing, communications, energy and transport sectors on the continent. The JSE is the largest stock exchange in Africa and in the top 20 worldwide. Our currency, the Rand, is the most actively traded emerging market currency.

When it comes to innovation, a recent World Economic Forum report placed South Africa on a par with India and Brazil. We are credited as having high-quality scientific research institutions and universities, which collaborate well with business. An example of how prioritizing strategic projects has borne results is the Southern African Large Telescope (better known as SALT), the largest optical telescope in the southern hemisphere. Built in the remote Karoo area, this multinational project aims to shed light on some of the oldest questions astronomers have asked about the universe. Now, South Africa is also a finalist to host the even more ambitious Square Kilometer Array radio telescope project that aims to probe the deepest areas of the universe.

The past decade has also seen South Africa substantially ramp up trade and investment in the region – Africa is now South Africa's fourth-largest export destination. Increasingly, South African companies are expanding into the rest of Africa, with

some having grown into truly multinational players. Locally-born global giants include the likes of mining group Anglo American; tobacco giant Rembrandt; cellular phone operator MTN; and Sasol, the petrochemical company that makes liquid fuel from coal and gas.

Does inclusion in BRICS give South Africa more clout to push its national interest and the broader African agenda at global governance institutions?

Yes, through our membership of BRICS, we are now in a stronger position to build consensus and prioritize pressing issues that face emerging markets, including Africa, at multilateral forums and the international institutions of global governance, such as the International Monetary Fund, World Bank and the UN Security Council. We are pushing for broader representation and are eager to advance the reform of these political and financial systems so that they are more representative of emerging markets. We believe that the BRICS can put significant weight behind restructuring global governance mechanisms and amplify the interests of developing nations.

Africa is a promising frontier for investment, but how much of an obstacle do remaining challenges represent, from poverty to internecine strife, unemployment and lack of infrastructure?

Africa, with its fast growing populations, provides enticing new growth opportunities, which are not just limited to gas, oil and mining but extend to manufacturing, food processing, agriculture, tourism, power generation, infrastructure development and more. There are real and deep challenges but these are not insurmountable. The economic, political and social revival of Africa is already well underway.

The pro-democracy protests [in North Africa] are sweeping away old orders. Backed by popular support, new governments should ultimately give birth to more attractive investment environments.

Some say the BRICS link moves Africa from the periphery to the center of the global economy. But is there a risk of supplanting traditional investors in Africa?

There certainly is a shift underway. We have seen an eightfold increase in BRIC-Africa trade and investment between 2000 and 2008. That said, our association with BRICS is by no means a rejection of our historical relations with the countries of “the north.” The developed north remains our major source of much-needed investments. But it is important to acknowledge the rising importance of the giants of “the south” and the value they bring to a developing economy such as ours.

What do you think is the most important message for potential investors in South Africa?

We have emerged from the apartheid era. South Africa is now in a position where it can contribute towards the building of a peaceful, democratic and prosperous Africa in an increasingly complex world. We are committed to the rise of our African continent and will embrace opportunities to partner dependable countries. In particular, we will support partnerships with a potential for job creation and sustainable economic growth and development in the region.

Our invitation to join BRICS carries symbolic significance as an acknowledgement of the role we play on the continent and the global stage. We will use this membership to build bridges between the north and south, and to explore new opportunities for emerging economies. ☺

MAITE NKOANA-MASHABANE

Minister of International Relations and Cooperation, Republic of South Africa

During the height of apartheid in the 1980s, Maite Nkoana-Mashabane was actively involved in the United Democratic Front, the broad-based civil society movement. When the ban on the African National Congress was relaxed in 1990, she helped re-launch the ANC Women's League. When the ANC won South Africa's first democratic elections in 1994, she became a member of parliament. She was subsequently appointed

High Commissioner to Malaysia and India and served as a provincial minister for local government and housing, in her home province of Limpopo. Nkoana-Mashabane became Minister of International Relations and Cooperation in May 2009. In this capacity she also served on the Local Organizing Committee of the 2010 FIFA World Cup. She serves on the ANC's National Executive Committee and National Working Committee.

