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Emerging Powers and the Changing Global Environment: Leadership, Norms and Institutions

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ABOUT THE EMERGING POWERS AND GLOBAL CHALLENGES PROGRAMME

The global system has undergone significant changes in the past two decades since the collapse of the Berlin Wall. While advanced industrial powers such as the US, Europe and Japan are still the driving forces of global policymaking, there is now a shift to non-polarity, interpolarity or multipolarity. Global interdependence has made international co-operation an inescapable reality and emerging powers such as Brazil, Russia, India, and China (BRIC) cannot be ignored in global governance processes. This new paradigm touches on a range of global challenges such as security, the G20, climate change and energy security.

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Please note that all currencies are in US$ unless otherwise indicated.

ABSTRACT

The rise of economically influential countries from the developing world is still a relatively new area of research, which is receiving increasing focus from international business actors, foreign policymakers and international relations scholars. Countries such as Brazil, China, India, Turkey, Indonesia, Vietnam and the re-emerging Russia are remapping the geography of economic power. However, it is still uncertain whether these countries have sufficient political weight and policy traction to change the structure of power in multilateral processes.

Emerging powers are asserting their influence in various multilateral institutions and seeking to amplify their unified voice on critical global policy issues. Some, notably Brazil, Russia, India, China and South Africa (BRICS), have gone a step further and formed a bloc to institutionalise their growing influence and augment their bargaining capacity. The paper examines the extent to which this new phenomenon of rising powers is reshaping the global order today. It looks at how emerging powers are positioning themselves in relation to the system of global governance, the ideas they articulate, and the extent to which their rise constitutes a counter-narrative to that which is presented by the West.

The paper considers whether the rise of emerging powers signals the decline of the West, and suggests that claims about this decline are exaggerated. Research and indices developed by various international organisations are reviewed to underline several institutional weaknesses, which should be taken into account when building relations with the BRIC countries in particular, and emerging powers in general. Finally, South Africa's place in the context of these global transformations is discussed.

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ABBREVIATIONS AND ACRONYMS

BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
E7	Emerging Seven
FDI	foreign direct investment
G7	Group of Seven
G20	Group of Twenty
GCC	Gulf Cooperation Council
GDP	gross domestic product
IDC	Industrial Development Corporation
IMF	International Monetary Fund
N-11	Next Eleven
NATO	North Atlantic Treaty Organization
P5	Five permanent members of the UN Security Council
WEF	World Economic Forum

INTRODUCTION

The 1990s marked the beginning of a shift in power of the global hierarchy. The emerging economies of China and India account for most of this change, together with Brazil, Turkey, Indonesia, Vietnam, Nigeria, Egypt and South Africa. It remains to be seen how this reordering, which is still in its infancy, will shape the future character, norms and leadership of the global system.

The paper discusses the positioning of emerging powers in the changing global system, and how they are influencing the patterns of power in the system. It consists of eight sections. The first analyses the emerging powers against the backdrop of other changes in the global system. The second explores the challenges of global governance and what needs to be done to strengthen it.

In response to conjecture over the decline of the West, the third section suggests that this is exaggerated, and that Western heritage should be defended. It also discusses Western dissonance with its liberal ideals. The fourth section discusses freedom and human rights issues in some of the emerging powers, and suggests that their development should be linked to far-reaching political changes as a crucial element for promoting human progress.

The fifth section traces the genesis of Brazil, Russia, India, China and South Africa, or the BRICS countries, and argues that this forum is misaligned with the shift in global power and a wasteful use of resources for its members. The sixth examines institutional voids in emerging powers, focusing on the BRICS countries, with which governments and corporations need to contend.

The seventh section makes a case for South Africa to develop a serious economic diplomacy approach aimed at the African continent. The paper concludes by offering recommendations mainly for South African foreign and economic policymakers.

EMERGING POWERS: WHAT ARE THEY REALLY?

The rise of the emerging powers signifies a major landmark in the history of the global system. It is arguably as fundamental as the collapse of the Soviet Union in 1991, which precipitated the dismantling of the Eastern communist bloc. It remains a contestable question as to which set of countries beyond the generally known BRIC (Brazil, Russia, India and China) group forms part of the category of emerging powers.

These developments are still fairly new as to afford an uninterrupted view into the real character of emerging powers. They should be seen not only in terms of risk and uncertainty, but also in terms of the boundless opportunity they offer economically, including to wider participants such as developing countries who could bring creative contributions towards improving global governance mechanisms. This ranges from decision-making in the multilateral trading system (with the exception of Russia which is not yet a member of the World Trade Organization), to the restructuring of the international financial institutions, and to managing insecurities relating to climate change. In most crucial decision-making processes at the global level, emerging powers are also co-protagonists, and are fast learning what it means to lead at this. Indeed, the global financial crisis in 2007/08 accelerated this global power-shift, with the inauguration of the

Group of Twenty (G20)[1] at the heads of government level as the premier decision-making body on global economic issues.

Much analysis has been undertaken about the meaning of this emerging global configuration of powers and how it is likely to shape governance structures and commercial relations. It is unclear who forms part of this new elite category and who is outside of it. This is even more so when there is an artificial engineering of membership to this category of emerging powers, as with South Africa's recent lobbying and subsequent acceptance into the BRIC forum (to become BRICS) – a political shadow of Goldman Sachs' economic designation.

Political decision-making at the global level remains dominated by established powers in the Group of Seven or G7 (Canada, France, Germany, Italy, Japan, the UK and the US) or, more pointedly, the Permanent 5 (P5) members of the UN Security Council (China, France, Russia, the UK and the US). Financial wealth, however, is increasingly diffused, as expressed in the growing foreign currency reserves of a number of emerging powers and their parlaying into sovereign wealth funds.

Unlike advanced industrial nations who have formed institutions such as the G7, emerging powers are not a coherent force with a well-defined view of the world.[2]

Many commentators have sought to define emerging powers using a variety of criteria, including geopolitical significance and economic weight. Most of these are evident in the BRIC countries, which possess the economic means to merit their political voice. Some run large foreign exchange reserves, for example Brazil and China. Some influence or position themselves to influence global energy markets, as is the case with Russia and likely to be so with Brazil as it rises to become a new major energy player with the discovery of pre-salt oil fields by Petrobas in 2007. China has become the global manufacturing centre, and is also developing stable and solid technological capabilities.

The BRICS countries are not the only countries that could be characterised as emerging powers. Others, such as Turkey (the sixth-largest economy in Europe), Indonesia (a populous country and one of the world's fastest-growing economies), Vietnam, and a few of the Gulf Cooperation Council (GCC) countries such as Saudi Arabia, should also be included.

The 2003 Goldman Sachs paper, *Dreaming with BRICs: The Path to 2050*, written under the leadership of Jim O'Neill, generated much interest on emerging powers, and BRIC in particular. This followed an initial analysis by Goldman Sachs under the title 'Building Better Global Economic BRICS', looking at comparing the economic outlook of larger emerging economies (BRIC) with that of the G7 countries.[3] The initial assessment had a short-term horizon, 10 years, compared to the 2003 report which had a long-term forecast of about four to five decades. Even though there was an initial analysis in 2001, the 2003 *Dreaming with BRICS* paper proposed that the BRIC countries will constitute the future engine of global economic growth. Their growth in US dollar terms will surpass that of the G7 countries by 2050 (which has since been revised to 2040).[4]

China was projected to overtake Germany by 2007, Japan by 2015, and the US by 2039. However, China has powered ahead of Japan sooner than expected, to become the world's second-largest economy in 2009. Implicit in the Goldman Sachs paper was the view that the kind of policies and institutions put in place by the BRIC countries to support growth would sustain their rise. Not to conflate growth and overall rising prosperity, the Goldman Sachs paper notes that 'despite much faster growth, individuals in the BRICs are still likely to be poorer on average than individuals in the G7 countries.'[5] Table 1 compares the growth rates of the BRIC countries, as well as South Africa, which joined in April 2001 to form BRICS.

Table 1: Gross domestic product (GDP) and projected growth for BRIC and South Africa, from 2010 to 2012

Country	GDP ($ bn)	Growth in 2010 (%)	Growth in 2011 (%)	Growth in 2012 (%)
Brazil	1,910,090	7.5	4.1	3.6
Russia	1,50708	4.0	4.8	4.5
India	1,367	10.4	8.2	7.8
China	5,364,465	10.3	9.6	9.5
South Africa	329	3.0	3.4	3.8

Source: IMF (International Monetary Fund), selected data, www.imf.org, World Economic Outlook, October 2010 and April 2011 update, and Report for Selected Countries and Subjects, http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2009&ey=2012&scsm=1&ssd=1&sort=country&ds=.&br=1&c=223%2C924%2C922%2C199%2C534&s=NGDP_R%2CNGDP%2CNGDPD&grp=0&a=&pr1.x=65&pr1.y=5

There are two weaknesses in the Goldman Sachs BRICs paper. The first lies in its arbitrariness in throwing these four countries together as constituting a special category. Apart from the growth story that they present, and that combined they make up one-quarter of the world's land area and 40% of the world's population, there is little in common between the BRIC countries. Ignoring countries that were also on the rise, such as Vietnam, Indonesia and Turkey, was a mistake that O'Neill later admitted and sought to correct by acknowledging the potential economic weight of these players, which they termed the Next Eleven or N-11.[6]

The second weakness concerns the paper's long-range forecasting for the BRIC countries' progress, which is unscientific and therefore prone to error. As Bremmer and Keat argue:[7]

> To combine so many complex variables into such a long-range forecast, the report's authors had to make a series of questionable political assumptions. The largest is that the governments of these four countries would exist in pretty much the same form for the following 47 years.

Ignoring political factors and employing the narrow economic variables thus limits the paper's analysis. As an investment bank, the main objective for Goldman Sachs was to construct an index of funds that could appeal to its investors. However, the paper would have benefited from incorporating other frameworks besides economics, such as the political economy, political risk factors and geopolitics, into its methodological approach.

Four years after the publication of *Dreaming with BRICs*, Goldman Sachs published another paper to map a different tier of countries that could also be regarded as being on the rise. The 2007 paper, *The N-11: More Than an Acronym*, focused on a group of countries that could become future growth centres owing to their demographic characteristics. According to the paper, 'Nigeria and Indonesia have the scale to be important if they can deliver sustained growth'.[8] Other countries in the N-11 designation are Bangladesh, Egypt, Iran, Mexico, Pakistan, Philippines, South Korea, Turkey and Vietnam. The countries represent a mixture of democracies and authoritarian regimes. Compared with *Dreaming with BRICs*, this paper takes a broader view in its reflection on trends related to technology, energy, urbanisation, infrastructure and human capital, and what these countries can do to sustain their growth. However, the analysis also fails to address critical geopolitical questions that may have a bearing on capital flows to emerging markets.

Goldman Sachs was not the first to identify emerging powers. Although not referring to them as such, Jeffrey Garten published a book in 1997 titled *The Big Ten*.[9] This was a distillation of a brainstorming exercise and a set of strategic thoughts generated under the administration of President Bill Clinton in 1993, which was undertaken by the Secretary of Commerce, Ronald H Brown, and his team which included the then Under Secretary of Commerce, Jeffrey Garten.

Although not a serious scholarly work, the significance of Garten's book was the US administration's attempt to understand how the world was changing in the aftermath of the Cold War, and the threats and opportunities this presented to the US. It represented a rigorous, strategic mapping exercise to understand precisely where future US economic interests lay.

Garten's observation was blunt: 'Indeed, if we make a cold-eyed assessment of where our future priorities lie, we would conclude that the world's dynamism is unlikely to be found in Europe or Japan, but instead in the big emerging markets.'[10] Garten identified Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea and Turkey as the 'big ten' countries. This work served an important role in developing a framework for US commercial diplomacy under Clinton.

Countries were selected on the basis of a number of criteria in *The Big Ten*, most of which are still relevant today. These included countries with large populations, resource bases and markets, that were powerhouses in their respective regions; countries that were bursting onto the world scene, shattering the status quo, and critical participants in global political, economic and social dramas; the world's fastest expanding markets, responsible for a good deal of the world's explosive growth of trade; and countries trying to open their economies, balance their budgets and sell off their state companies.[11]

This criteria varied between countries. Not all the dimensions Garten outlined were relevant for classification as big emerging markets. Garten's work was preoccupied with the US place in a changing global order and the need to sustain its competitiveness in the post-Cold War era. It was also aimed at developing a framework for commercial diplomacy, devoting an entire chapter to the subject[12] and presented policymakers with a framework to assess strategic economic opportunities in a time of change. It is this kind of strategic mapping that is required if countries are to better understand the forces shaping global developments in the 21st century and turn these to their advantage.

The area of emerging powers continues to receive attention in academic, policy and financial circles in the US. All are concerned largely with issues of distribution of power and leadership in the global system. International relations scholar, Richard Haass, has suggested his own formulation, characterising them as 'major powers'.

Haass identifies China, India, Japan, Russia, the EU and the US as forming the first tier of leaders in the emerging global system, which he terms 'the age of non-polarity'. He observes that these countries 'contain just over half of the world's people and account for 75% of global GDP and 80% of global defence spending.'[13] However, Haass is inconsistent as to which countries should be regarded as major powers. He includes countries that are clearly in relative decline, such as the US and Japan; re-emerging but still backward economies such as Russia; and clearly emerging powers, such as China and India.

The second tier is made up of regional powers. It comprises Argentina, Brazil, Chile, Mexico and Venezuela in Latin America; Nigeria and South Africa in Africa; Egypt, Iran, Israel and Saudi Arabia in the Middle East; Pakistan in South Asia; and Australia, Indonesia and South Korea in East Asia and Oceania. However, there is no convincing conceptual framework to explain why these countries are placed in this category.

Haass makes a number of important assertions, although none of these is original. He observes that the emergence of multiple centres of power has resulted in non-polarity of world powers. He notes the declining influence of the US, the powerful role of globalisation trends, and the need to identify leadership in accordance with the kind of policy issues that are at stake.

Change in global governance means that different countries or groups of countries could exercise global leadership depending on what is on the agenda. For example, the established powers with the North Atlantic Treaty Organization (NATO), rather than the emerging powers, are leading the military incursion into Libya following the rebellion in the early part of 2011.[14]

Peter Marber suggests that the emerging global system represents a quantum world in which a coherent and stable leadership is yet to evolve. He coined the term Emerging Seven or E7 to delineate a group of countries that are growing in political and economic influence, namely China, Russia, India, Indonesia, Mexico, Brazil and South Korea. Their combined population is more than four times that of the G7 nations.[15] The sum of their economies '[is] already 75% of the G7 on a purchasing power parity basis.'[16]

Nonetheless, emerging powers are those economies, previously known as developing, that have a combination of the following characteristics: a large and growing population; a massive resource base or major energy consumers; regional powers; growing middle classes that are contributing or could potentially contribute to the rebalancing of the global economy; financial resources reflected in the size of their foreign exchange reserves and with active sovereign wealth funds; and a rise in the global power hierarchy, particularly an influential role in the international financial institutions and the G20.

CHALLENGES FOR GLOBAL GOVERNANCE: DEVELOPING NEW WAYS OF MANAGING THE WORLD

It would be premature to make a conclusive observation about the shape of the global governance framework that could emerge as a result of the power shift from advanced industrial countries to emerging economies. It is not yet clear what will fill the vacuum occasioned by the decline of US leadership. The growing reliance of the US to take on additional burdens for global governance is not matched by a growing appetite on the part of emerging powers such as China, Brazil and India to play a leadership role or to take on some of the burdens of managing the global economic system. The emergence of the G20 as the premier body that will decide on major economic issues affecting the world, and the relegation of the G7 to a political or security deliberation sub-group, will also influence future global governance.

The short history of the current global governance mechanism is replete with lessons on the necessity and burdens of leadership. It is a position that is impossible without responsibility and cost. In the post-Cold War period, the US availed itself of the responsibility to provide leadership to ensure the stability of the international system. The role entailed being at the forefront of efforts to create rules and institutions (regimes) for governance of trade, security and finance. This regime embodies 'sets of implicit or explicit principles, norms, rules and decision-making procedures around which actor expectations converge'.[17] Accordingly, the US hegemony acted as a guardian for these rules and principles.

This hegemonic role of the US was necessitated by the geopolitical threats created by the Cold War, an environment in which the US wanted to be recognised as an undisputed global leader. It required the US to dispense financial largesse to those countries it wanted to keep under its sphere of political influence. It also propelled the US to shoulder the burden of sponsoring a mechanism for Europe's post-war reconstruction and development; and later to support major development efforts worldwide, a liberal trading regime and a stable balance of payments regime. This was possible for the US because it possessed the military, economic, financial and technological wherewithal.[18]

US leadership is essentially the progenitor of institutions such as NATO, the General Agreement on Tariffs and Trade, the IMF and the World Bank, whose establishment would have been impossible without a leader willing to shoulder their costs.[19] The institutions have been crucial in sustaining world peace and deepening integration among nations. The US has also played an important role in buttressing their intellectual foundations and providing normative coherence.

Managing subsequent tension and keeping the world going has been one of the marks of stability manifest in the US hegemony and the support of other G7 countries.[20]

THE RISE OF EMERGING POWERS AND THE DECLINE OF THE WEST?

There are suggestions that the Western system is dissipating and will be replaced by a new form of global governance. Should this be the case, it is as yet unclear what kind of global governance system is likely to emerge. In his essay on the decline of the West, Mahbubani constructs a world of binary tensions, such as the 'West versus Asia', suggesting that the West is in decline as Asia is on the rise. He argues that 'the West is understandably reluctant to accept that the era of its domination is ending and that the Asian century has come. No civilisation cedes power easily, and the West's resistance to giving up control of key global institutions and processes is natural.'[21]

Mahbubani's view is shared by many others who seek to see the acceleration of the West's decline.[22] It wrongly suggests that there is a civilisational transformation underway rather than a passing, if not a sharing, of the leadership baton from a certain group of countries – largely the G7 – to emerging powers that are not as yet a coherent agency with defined interests and norms.

However, Mahbubani contradicts his key point in calling for the West to cede power and yet bemoaning the waning leadership interest on the part of the US and Europe, expressed in their failure to push for further liberalisation in the global trade talks.[23] This line of thought is later qualified in his book, *The New Asian Hemisphere*, in which he differentiates between what he calls the 'territorial West', which includes North America, Europe, Australia and New Zealand; and the philosophical West.[24]

While denouncing the territorial West, Mahbubani extols the virtues of its philosophical tradition; its championing of the ideals of equality and its advance of human knowledge in sciences and technology. Yet, as he observes, the material West has at times behaved contrary to its ideals, and has been more concerned with defending its own interests.[25]

A glaring weakness in Mahbubani's work is his failure to acknowledge Asia as a Tower of Babel, with diverse world views, cultures and political systems. Emmott recounts a remark by a senior official at India's Ministry of External Affairs during an interview: 'The thing you have to understand is that both of us [India and China] think that the future belongs to us. We can't both be right.'[26]

Emmott's work, *Rivals,* offers a comprehensive survey of some of the tensions between Asian countries, focusing on India, China and Japan, over territorial disputes and insecurities around access to vital energy sources. It also reflects on the role of the US during President George Bush's term in pursuing strategic relations with India, beginning with the signing of the nuclear deal in 2006 to agree to collaborate over civil nuclear energy. This agreement no doubt helped to fuel mistrust between the greatest Asian rivals – China and India.

During his state visit to India in 2010, President Barack Obama advanced this relationship by emphatically endorsing India's bid to become a permanent member of the UN Security Council. That Asian countries could be susceptible to co-option by the West for purposes of counterbalancing powerful countries such as China cannot be ignored in the debates about the rise of Asia and decline of the West.

China too has its own special relationship with the US. This is cemented in what the Western media has characterised as the G2 – a new centre for the resolution of major global challenges; or what Ferguson calls 'Chimerica'. According to Ferguson, this Chimerica is expressed in the interlocking financial relationship between China and the US. China exports a significant size of its capital to the US through the purchase of US Treasury bills, whereas US companies have established export bases in China, shipping merchandise back to the US.[27]

Accordingly, China lends a large proportion of its current account surplus to the US to fuel its consumption. This effectively makes China banker to the US.[28] This balance, in Nye's view, carries with it the 'danger of accidents with unintended consequences'.[29] Rachman stretches the analysis of this interdependence (or US dependence on China) by suggesting that even the US military can be considered to be financed by the Chinese, since it accounts for a considerable proportion of the US debt. He notes that America's military chiefs are acutely aware of this dilemma. In late 2010 Admiral Michael Mullen, chairman of the Joint Chiefs of Staff, argued that 'the size of the national debt is the single biggest threat to American national security.'[30]

These complex interdependencies demonstrate that the world cannot be differentiated neatly by the 'West versus Asia'. A more nuanced treatment of Western civilisation is found in Niall Ferguson's work, *Civilization: The West and the Rest*, in which he sets out what distinguishes the West from the 'rest' or the non-Western world. Ferguson points to competition, science, property rights, medicine, the consumer society and work ethic as signifying Western civilisation. He suggests that capitalism or democracy is subsumed under these pillars.[31] According to Ferguson, the rise of the West has rested on institutional advantages.

These dimensions of Western civilisations discussed by Ferguson can be summarised as the drive towards industrialisation, the embrace of knowledge and innovation, democracy, and the rise of consumerism as a unifying expression of material success and expanded choice, which is an important category of liberty. Emerging powers are seeking to appropriate, if not emulate, these Western advances and lifestyle rather than to supplant them and replace them with something else. As such, the decline of the West is a mythical construct.

Further, it is unclear whether the emerging powers are ready to assume a role at the head of civilisational transformation or, more modestly, to lead the global institutions created by the West. It is also unclear whether they have the capacity to construct a new framework of global governance that bequeaths humanity with better standards and outcomes, which fundamentally improves the existing Western paradigm, affirms human dignity and allows for expression of 'man's highest desire' for liberty.[32]

There are three realities that most proponents celebrating the decline of the West fail to grasp. The first is that the socio-political character of some of the emerging powers, such as China and Russia, does not command as much appeal. These countries cannot export values they do not possess. They will pass on to the world what is already ingrained in their domestic polity – authoritarianism – should they export any values at all. Even their institutional construct suggests a yearning for Western modernity and is aimed at catching up with the West.

The second reality is that it is on the account of globalisation and liberal reforms, largely championed by Western countries at the international level, that some of these emerging powers navigated their way to high levels of economic growth. It was under Deng Xiaoping in 1978 that the train of liberal economic reforms were set in motion in China. Since then there has been a gradual progression, with some Chinese elites even appropriating the concept of democracy but seeking to imbue it with 'Chinese characteristics' – a perverted form of democracy confined to party structures, with the rest of society relegated to the role of passive agents.

As a credit to liberal economic reforms, China's economy grew four-fold from 1978 to 2007.[33] The Communist Party in China has undoubtedly changed over the years, edging more towards the moderate side of the spectrum and aware that the resolution of the tension between authoritarianism and liberty in the future favours the latter. It is inconceivable, for example, that the Tiananmen Square massacre could be repeated, even though dissent is still not tolerated.

China has sought to postpone the inevitable by sustaining its legitimacy through co-opting the middle classes, entrepreneurs and business leaders to its ranks.[34] Yet for it to grow as a nation and appeal to the rest of the world, China will need to develop and embrace a more pluralistic political infrastructure. It will have to show that dialogue is part of its rise, as this is crucial for merging a new framework for global governance, based on co-operation, shared interests and values, and interdependence.

India also experienced economic success as a result of liberal economic reforms initiated in 1991 by Manmohan Singh, the current prime minister (and then finance minister). India has benefited from being a pluralistic democracy with a generally argumentative tradition that allows for open discussion and questioning of authority.[35] Its major weaknesses are massive bureaucratic inefficiency, the scourge of corruption and high levels of poverty.

Brazil has had to cast away vestiges of military dictatorship and inward-looking economic planning after experiencing chronic hyperinflation, budget deficits, current account deficits and political instability in the 1980s and early 1990s.[36] It has moved away from ideological state-planning and debt-financed investment, abandoning its import substitution industrialisation and embracing the forces of globalisation.

Sweeping economic reforms were introduced by then President Collor de Mello and accelerated by Fernando Cardoso when he became Minister of Finance in 1993. Under de Mello, Brazil undertook far-reaching privatisation. The Banco Nacional de Desenvolvimento, the development finance institution of Brazil, was at the forefront in facilitating private sector involvement in the economy.[37] This was at a great cost to infrastructure development, which was constrained by stabilisation programmes in the early 1990s. Accordingly, fiscal spending on domestic infrastructure development and social services was restricted. These constraints continued until 2002, with the commencement of President Lula da Silva's administration.

Brazil replaced military rule and autarky with political plurality and openness to the rest of the world. Notwithstanding their adverse effect on the social sector and infrastructure, economic reforms and stabilisation packages of the 1990s created a good macroeconomic foundation for Brazil's later success. This success was fuelled largely by the rise in commodity prices in the late 1990s and early 2000s.

The third reality is the rise of a Western consumer society in the emerging powers. Outside of Asia, young Asians choose to study in Western universities of the UK and the US rather than in non-Western countries. Technology, a symbol of Western power, is increasingly being localised. Two major Chinese telecom equipment vendors – Huawei and ZTE – have recently fought a fierce battle over allegations of intellectual property (patents and trademarks) infringement. One is state-controlled (ZTE) and the other private (Huawei). This dispute has demonstrated not only the recognition of the importance of intellectual property protection (a traditionally Western obsession) among Chinese commercial actors – state-owned and private – but also respect for Western judiciary framework. Their court case was fought out on Western soil, in a German court.[38]

The younger generation in emerging countries has an affinity with some of the influential Western cultural symbols and aspires to Western-defined standards of success. The growing middle classes and expansion of internal demand in China may accelerate cultural convergence with the West. Further, emerging powers are aspiring economies that seek to emulate the Western countries without necessarily overhauling the foundations of the system. They want to be seen as modern industrial successes in terms already defined by the West, rather than primordial tradition. Together with the plurality of participation in the global economy, there is a growing intellectual and, to some degree, cultural convergence around a Western-defined template.

Western countries should content themselves with Western modernity remaining hegemonic, even if their countries are increasingly playing second fiddle. However, the advanced industrial countries have been myopic in seeing the West as under threat. This may be more than just a concern about Western values slipping away. It may also be a fear of what the global reconfiguration of economic power means for their competitiveness, control over economic opportunities, and a general sense of impotence in a world which they can no longer easily control. Whelan's back cover review of Emmott's book exemplifies this fear: 'Asia is the new world. What happens there affects us all – our jobs, our livelihoods, our prospects.'[39] Such alarmism is unwarranted. A further example of Western fear was demonstrated in Europe's push for Christine Lagarde to replace Dominic Strauss-Khan as the head of the IMF, a move that narrowed the possibility for an emerging economy candidate on the basis of consensus. This is despite the strong case put forward by emerging powers for the reform of the international financial institution, including increasing the participation and voice of developing countries and making leadership appointments more transparent and on the basis of merit rather than nationality or geography.

In the context of the reform of international financial institutions and leadership selection, Western support of an emerging country candidate would be a sign of maturity and would communicate a willingness to embrace reform of global governance institutions and a commitment to building bridges with the emerging powers.

Lagarde's campaign highlights Europe's declining self-confidence and clout in its need to prop itself up by holding on to traditional totems of leadership, such as the IMF. Having the face of the IMF coming from a developing world would make international financial institutions a lot more acceptable, and help to accelerate the socialisation of developing countries into liberal internationalist norms. It would also facilitate understanding between the West and the emerging powers.

Western dissonance with its liberal ideals

To celebrate the decline of the West is to sing a dirge for liberty. However, it is important to recognise the extent to which dominant Western countries have acted incongruously with their liberal ideals. These inconsistencies are found in a history of colonialism; participation in corruption in the Third World; dubious dealings with autocrats whose countries possess energy resources; military adventurism that is self-serving and disregards international law; and mercantilism and trade restrictions.

Although emerging powers such as China do not yet have the credibility or legitimacy to provide leadership, they may gain this in the future as they are coming from a low base. The Western world, however, is increasingly losing credibility and legitimacy to lead and may never reclaim this, especially if it continues to act in ways that are dubious and inconsistent. It is not only the loss of economic power of the West to emerging powers that should worry the West the most. The disjuncture between norms and practice in the Western world that has induced the loss of credibility and legitimacy in global governance mechanisms should be equally worrying. Gaddis notes that during the Cold War:[40]

> there were repeated instances in which the United States compromised and even corrupted democratic principles: the Yalta settlement on Eastern Europe and Northeast Asia; the

> covert manipulation of other countries' internal affairs; [and] association with right-wing authoritarian regimes in much of Asia, Africa, Latin America, and parts of Europe.

The Western liberal tradition would have been a more persuasive force in demonstrating harmony between the doctrine of liberty and policy application.

In more recent times the discord between liberal values and practice in the West has been expressed in the proliferation of right-wing nationalist movements in parts of Europe; maintenance of subsidies for agriculture and ethanol production, and a host of non-tariff barriers in both Europe and the US; tolerance of the US for authoritarian regimes that supply it with critical energy sources, such as Saudi Arabia, while being hard on other regimes; and a selective, if not self-serving, application of international law by the Western countries.

This Western dissonance is also apparent in the economic sphere, where liberal market principles are circumvented in a self-serving manner. Examples include the blocking of China's energy company, China National Off-shore Oil Corporation's bid by a US congressional committee from taking over Unocal, a US energy company, in 2005; the establishment of a Strategic Investment Fund in France in 2008 designed to front run investments into sectors regarded as 'strategic', thus preventing these from falling into foreign hands;[41] the nationalistic procurement provisions linked to companies receiving government bail-out support in the wake of the global financial crisis in the US in 2008; the New Zealand government's opposition to a planned take-over of Auckland airport by Canada's Pensions Plan Board in 2008; and Canada's rejection of the purchase of the space technology division of MacDonald Dettwiler by the US Alliant Technosytems in 2008.

Western countries could thus be seen as being the greatest opponents of the march to Western modernity in both political and economic terms. It is important that the Western intellectual tradition, particularly its professed liberal political and economic ideals, be vigorously defended. This defence should principally come from the West, expressed through a change of behaviour, which should also persuade other emerging powers of the benefits of embracing the Western political and economic tradition.

FREEDOM IN EMERGING POWERS

Those who seek to reduce the importance of freedom often claim that countries such as Singapore, Taiwan, South Korea, and China rose or are rising, and the quality of life of their citizens is improving, despite an absence of a pluralistic democratic framework. This is rather short-sighted. Any regime that does not derive its legitimacy from its citizens through free and open contestation cannot be sustained for long. Legitimacy can be tested through a system that allows citizens to choose freely who governs over them, and to constantly scrutinise those who govern through the media and other channels. Freedom transcends material improvements and connects with the deepest human desire of liberty and exercise of choice unimpeded by man-made constraints, a central point in Fukuyama thesis in *The End of History*.[42]

Comparing freedom (a philosophical and spiritual category) and economic well-being is a futile exercise, as both are necessary guarantees of human dignity and national prosperity. As Sen suggests, freedom entails an environment that allows for maximisation of human capabilities and implies an absence of constraints to maximising choice and human capabilities.[43] Political philosophers such as Martha Nussbaum have also stressed the importance of improving capabilities and affirming human dignity as essential for a development approach.[44]

Berlin discusses this notion extensively in his *Four Essays on Liberty,* which sets out two forms of liberty – negative and positive liberty.[45] The former refers to the absence of man-made obstacles, such as a political authority or arbitrary rules and regulations, that limit the agency power of individuals or their ability to advance their interests without violating those of others. Berlin was mindful of economic freedom in outlining his view on negative liberty. He recognised the need for parameters to protect the interests of others from being violated as a result of the choice exercised by others. Berlin was also aware of the conditions that may make it difficult for individuals to exercise their economic freedom, such as the means to pursue economic interests to extricate themselves from conditions of poverty and enjoy a satisfying material life. So long as such conditions are not the result of man-made obstacles, individuals have the freedom of choice and latitude to explore possibilities of obtaining the means to pursue their economic goals.

Positive freedom involves conditions within which individuals are able to organise their lives. The application of positive freedom is largely in the exercise of political choices. This includes the type of political arrangement under which individuals may prefer to live and telling those in power that their decisions are wrong or that their policies represent an obstacle to progress.

The framework of governance that requires accountability and justification is central to a healthy contract between those who govern and those who are governed. This is a critical part of the Western liberal tradition, and something which is alien in emerging powers such as China and Russia. Crucially legitimacy finds its best expression where those who govern account to the governed. In an environment where decision-making by authorities is beyond question, lives of individuals may soon be debased in the name of a higher logic defined by the collective of political authority.

The expression of this is an arrangement where those in power regard themselves as the wisest in society and as the sole custodians of truth.[46] In the contemporary world this is exemplified by the role of the Chinese Communist Party as the only rational instrument to organise political, social and economic life, and to which the rest of society is subordinated as a politically passive agency. The party's omnipotence extends to matters metaphysical, such as abrogating the right to have a decisive voice over the nature of the reincarnation of the next Dalai Lama. The party imposes a Machiavellian rule in the name of a supposedly higher unifying ideal. It regards any dissent as a danger to this teleological ideal, which is often couched in terms of national prosperity.

Both negative and particularly positive freedoms can best be guaranteed under democratic conditions. Freedom lies at the heart of Western liberal tradition. This is a tradition that has a better philosophical argument and a more acceptable political settlement.

WHAT THE RISE OF BRICS SIGNIFIES FOR GLOBAL GOVERNANCE

Since Jim O'Neill coined the concept of the BRICs, there has been much speculation about their place in the world and what their rise means for global governance. Five years after BRIC countries were added to the international relations lexicon, Russia seized the opportunity to convene the first BRIC summit in the town of Yekaterinburg in June 2009. This formed part of President Dymitry Medvedev's attempt to play a leading role in the evolving multipolar world and to redefine the terms of co-operation with advanced industrial countries. He sought to cement a coalition that he could use to derive legitimacy in Russia's dealings with the West and to strengthen its integration into the global economy. There was a strong focus on diversifying away from the US currency and exploring other currency reserve mechanisms. Medvedev asserted that: 'there can be no successful global currency system if the financial instruments that are used are denominated in only one currency.'[47]

Little was achieved at the Yekaterinburg meeting besides broad announcements on the reform of global governance institutions, the creation of a multipolar world, and the need to explore an alternative set of reserve currencies that could rival, if not replace, the US dollar. A subsequent meeting in Brasilia in April 2010 also achieved little.

The irony of positioning themselves along the lines of a notion crafted by a Western investment banker – Jim O'Neill – seemed to have escaped the BRIC countries. Besides filling the schedules of political elites, bureaucrats and diplomats, club diplomacy hardly achieves anything substantive, especially where there are no clearly defined objectives and a credible programme to execute these. Yet there are costs in the form of time spent in these meetings and financial resources used to attend and service them.

The BRIC countries have little in common as a group, and other emerging powers are also growing at a fast pace with increasing influence in the global political economy. BRIC countries are caught up in tensions, such as the border disputes between China and India; or the recent currency tensions between Brazil and China. These countries as a collective are bereft of clear intellectual arguments about alternative global futures.

This passion for club diplomacy in some way reflects foreign policies stuck in the old mode of thinking along North–South tensions. Such formulations have lost their relevance in the changing world we live in, where interdependence and co-operation is required across geographic lines.

A more legitimate global governance framework will reflect the spirit of bridge-building across East and West, and North and South. Both normatively and in their individual interests, BRIC countries have differences that are not easy to bridge, which explains why declarations from their summits are so broad and generic. China and Russia are authoritarian governments with massive corporate governance weaknesses (especially Russia). Russia's persistent corruption and poor rule of law are well known. Brazil and India, on the other hand, are fairly strong democracies that, together with South Africa, share a common agenda for global governance reform. This is seen particularly in their desire for reform of the UN Security Council, and their strong commitment to democracy, the rule of law and to human rights. Only India, Brazil and South Africa can be characterised as truly democratic, a common thread that makes their initiative, to promote South–South co-operation, weightier and more genuine than the amorphous BRIC grouping.

China and Russia are comfortable in their traditional roles as members of the elite P5 in the UN Security Council. They seem more interested in defending the status quo than in furthering the empowerment of other emerging economies. It seems unlikely that China will support India's accession as a permanent member of the UN Security Council.

Another divide is the commercial spat between Brazil and China, with Brazil blaming the artificially low Chinese currency, the renminbi, for a loss of competitiveness and a flood of Chinese imports. This has intensified under President Dilma Rousseff's administration in Brazil since late 2010.

There is no clear rationale for a group that incorporates only five countries and has no compelling unifying agenda. Accordingly, there is a need to think beyond the BRIC countries in forging alliances and creating a better framework to develop a more credible and legitimate global governance mechanism. Other emerging powers hold significant economic opportunities for expanding trade and investment relations. These include Indonesia, Vietnam, the GCC countries, Turkey, and South Korea – which could be important sources of investment and technology for other developing and middle-income countries, such as South Africa.

South Africa's membership to the BRIC forum was confirmed at the summit held in Sanya, China on 14 April 2011. Arguments about its need to participate have been unconvincing. It seems incomprehensible why an important country such as South Africa, which has earned global recognition for its contribution in the multilateral system since the early 1990s, would go to the lengths of seeking affirmation from countries such as China and Russia. South Africa's unique contribution has included offering innovative ideas on vital global governance issues, and demonstrating leadership in conflict resolution, peacebuilding and post-conflict reconstruction in parts of Africa. Traces of these qualities are fast evaporating. South Africa's yearning for BRIC recognition suggests a diminishing sense of self-regard and loss of strategic clarity in the country's foreign policy.

Much of the rationale for South Africa's participation in the BRICS forum is based on the ill-argued view that this will help in generating trade and investment opportunities. Such forums have neither the capacity nor the time to undertake extensive discussions on trade and investment opportunities. The BRIC forum is essentially a political club, with limited room on its agenda to deal with sensitive questions related to a restrictive investment regime or the removal of non-tariff barriers. In any case, these are essentially bilateral issues, and discussing such matters would create a great deal of discomfort in a room filled with politicians from five different countries, which have unresolved tensions among themselves.

No country can claim to have returned from the Sanya Summit with major gains in trade and investment; or even a political breakthrough on an important issue. Yet there is a growing need for foreign policy practice to demonstrate benefit creation for its citizens than spending time and energy on processes that yield no substantive value. Mere declarations of progress are insufficient, and political elites and bureaucrats need to justify foreign policy practice in more concrete terms, especially in the face of competing needs for resource allocation.

INSTITUTIONAL VOIDS IN THE BRICS COUNTRIES

Nonetheless, there are benefits to be gained in engaging emerging powers, especially if this is concentrated bilaterally and involves the voice of the business community – both major exporters and investors. Building relations with emerging powers should be undertaken on the basis of properly defined strategic interests; and with due recognition of the institutional voids marking these countries. The focus of engagement should strongly be commercial diplomacy aimed at removing regulatory barriers and generating trade and investment opportunities on a bilateral basis. A properly structured government–business strategic process could help the South African government in sharpening its economic or commercial diplomacy, and lend its foreign policy a modern edge that has relevance for the renewal of the domestic economy. Understanding various institutional voids in emerging powers can give greater confidence to the South African government's bilateral engagement.

In a general sense, these voids are captured in four authoritative reviews. These are the World Economic Forum's (WEF) *Global Competitiveness Report 2010–2011*; the World Bank's Doing Business Index, which measures the ease of conducting business in various countries; the Heritage Foundation–Wall Street Index Review of Economic Freedom; and Transparency International's Corruption Perceptions Index. The reviews also provide an indication of the state of readiness of these countries to be major economic players that generate sustained prosperity for their people.

Since the BRICS are relatively new as global actors, and a magnet for investment, it is important to look at how they compare with each other on various dimensions. Despite their growing attraction, these countries are replete with what Khanna and Palepu call institutional voids.[48] These are obstacles that need to be corrected for these countries to develop their full potential.

Ease of doing business in the BRICS

Table 2 presents the World Bank's Doing Business Index for the BRICS for 2010.

Table 2: BRICS World Bank's Doing Business Index, 2010

Dimensions	Brazil	Russia	India	China	South Africa
Ease of doing business (overall score)	129	120	133	89	34
Starting a business	126	106	169	151	67
Construction permits	113	182	175	180	52
Registering property	120	45	93	32	90
Protecting investors	73	93	41	94	10
Trading across	100	162	94	94	148
Enforcing contracts	100	19	182	18	85
Closing a business	131	92	138	65	76

Note: There are a total of 183 countries reviewed according to the World Bank's Doing Business Index. A country doing well will rank closer to 1, and worst performers closer to 183. The table identifies overall ranking as well as specific pillars.

Source: World Bank, *Doing Business Report*, 2010, http://www.doingbusiness.org/rankings

A number of BRICS countries score poorly on the ease of doing business. South Africa's overall ranking surpasses that of its BRIC peers, which means it is far easier to do business in South Africa than in any of the other BRICS. This should give the country a strong platform from which to raise these deficiencies with its partners at the bilateral level. Russia and India present the worst cases. Both countries are characterised by corruption and bureaucratic inefficiencies.

In India, caps on foreign direct investment (FDI) in certain sectors dampen business confidence. Some critical services sectors are layered with restrictions on the percentage of foreign ownership: the cap is 26% in the insurance sector; 49% in telecoms; and 49% in banking. Other sectors are just impenetrable fortresses. As Bremmer observes, 'the state still owns more than half of India's 40-largest companies and more than 200 firms in total. Local governments throughout the country own a thousand more.'[49]

Russia has one of the worst forms of institutional voids, as reflected in the World Bank's Doing Business Index. Its competitiveness is also weak. Distorting Russia's economic performance further is the overbearing role of the state in the economy, particularly in sectors such as natural gas, copper, media, roads, railways, banking and aircraft. Most of these fall under restrictions imposed by the State Council in 2008, in which 42 sectors were designated as strategic and access to them was strictly off-limits for foreigners.

Competitiveness in the BRICS

WEF defines competitiveness simply as the set of institutions, policies and factors that determine the level of productivity of a country, which in turn contributes towards improving the level of prosperity an economy can generate.[50] Countries characterised by high levels of productivity produce high standards of living for their citizens.

The emphasis placed on the quality of institutions underlines their significance in ensuring the country's economic stability and enhancing competitiveness. Investment decisions and organisation of production are, according to WEF's *Global Competitiveness Report 2010–2011*, influenced by the quality of institutions. As such, the report discusses 12 pillars it considers crucial for improving competitiveness. Table 3 (see page 21) illustrates the BRICS countries' rankings on competitiveness from 2010 to 2011.

The significance of the WEF report is that it provides benchmarking tools for business leaders and policymakers so that they can address competitiveness constraints. It defines competitiveness as 'a set of institutions, policies, and factors that determine the level of productivity of a country', and considers competitiveness to be the basis of creating national prosperity.[51] BRICS countries have mixed results on competitiveness scoring, some doing better than others. Overall, competitiveness remains a challenge in the BRICS and does not track the positive growth trends in these countries. Consider Brazil, for example, where poor infrastructure quality results in higher logistic costs and inefficient patterns of interregional and international trade. Port infrastructure, roads, air transport and railroad infrastructure remain extremely poor. Positive appraisal is in the country's low political risk and fairly well-developed capital market.

Goods markets in Russia remain inefficient. The country has inept anti-monopoly policies and restrictive conditions for foreign ownership. Russia's institutions are said to be very weak. However, the WEF report has a more positive take on dimensions such as infrastructure, education and health, viewing Russia as improving on these.

Table 3: BRICS World Economic Forum's *Global Competitiveness Report 2010–2011*

Dimensions	Brazil	Russia	India	China	South Africa
Overall ranking	58	63	51	27	54
Institutions	93	118	58	49	47
Infrastructure	62	47	86	50	63
Macroeconomic stability	111	79	73	4	43
Health and primary education	87	53	104	37	129
Higher education and training	58	50	85	60	75
Goods market efficiency	114	123	71	43	40
Labour market efficiency	96	57	92	38	97
Financial market development	50	125	17	57	9
Technological readiness	54	69	86	78	76
Market size	10	8	4	2	25
Business sophistication	31	101	44	41	38
Innovation	42	57	39	26	44

Note: This report ranks 132 countries, with 1 indicating top performance and 132 worst performance.

Source: WEF, *Global Competitiveness Report 2010–2011*, http://www.weforum.org/reports/global-competitiveness-report-2010-2011-0

India has weaknesses in its health and primary education pillar of global competitiveness. It has high rates of communicable diseases and infant mortality. According to the report, the macroeconomic environment continues to be characterised by persistent budget deficits, high public debt and high inflation; and a need to upgrade its infrastructure. The size of its market and the efficiency of financial markets are the silver lining in India's global competitiveness.

China has achieved consistent progress in its global competitiveness. The large and growing size of its market, macroeconomic stability, and relatively sophisticated and innovative businesses have put the country in a more favourable light. However, challenges abound in areas such as technological readiness and information and communications technology penetration.

With the exception of China, South Africa ranks ahead of the other BRICS in the global competitiveness index. South Africa performs well on measures such as the quality of institutions and factor allocation, property rights and accountability of private institutions, as well as goods market efficiency. Its business sophistication is at an impressive level. The country is regarded as innovative and benefiting from good scientific research institutions and strong collaborations between universities and the business sector.

However, the report highlights some troubling weaknesses. These include labour market inefficiency with inflexible firing and hiring, and a lack of flexibility in industry wage determination by companies. The report points out that infrastructure requires further upgrading besides that achieved during the 2010 FIFA World Cup™.

This comparative picture of the BRICS offers a sobering account of the challenges these countries need to overcome if they are to achieve an unquestioned global economic status. These weaknesses also provide clues for countries and corporates that are engaging the BRICS on what to pay attention to and focus on in implementing a BRICS-oriented commercial strategy. There are no guarantees that the BRICS will improve in their ranking. Those ranking higher than others could experience a further slide – as was the case with South Africa, which fell nine places from 45 to 54 between the previous and the current report.

Economic freedom in the BRICS

This section draws heavily from the Heritage Foundation Review.[52] The joint Heritage Foundation–Wall Street Index Review of Economic Freedom assesses 183 countries to interrogate the extent to which they allow for economic freedom. This is defined as 'the fundamental right of every human being to control his or her own labour and prosperity.'[53] The Economic Freedom Index measures 10 components: business freedom; trade freedom; fiscal freedom; government spending; monetary freedom; investment freedom; financial freedom; property rights; freedom from corruption; and labour freedom.

South Africa has a high overall ranking compared with the other BRICS countries. Out of the 183 countries assessed, South Africa ranks 74th with a score of 62.7%; Brazil is 113th with a score of 56.3%; India 124th with 54.6%; China 135th with 52%; and Russia is one of the worst performers, ranking 143th with 50.5%.[54]

Taking a closer look at select pillars of economic freedom for each of the BRICS countries, it is clear that across a number of dimensions, South Africa outperforms the other BRICS. Brazil's investment freedom is low, with a score of 50%, and the country's investment regime is marked by restrictions in several industries. Financial freedom, which is also at 50%, is limited. Although the banking sector is diversified and competitive, it exhibits a great deal of state involvement. Public sector commercial and development bank assets account for around 40% of the financial system's total assets, with the two largest state-owned banks controlling about 25% of total assets. Nonetheless, there is foreign participation in the banking sector, with three of the top 10 banks being foreign-owned. Corruption remains a problem in government procurement, although this is not as significant as in South Africa, India and Russia.

Russia, the worst BRICS performer across various dimensions, has an underdeveloped financial sector, with state-owned banking being heavily dominant. Russia possesses a minuscule capital market, which is dominated by the energy sector. Foreign investment also faces severe restrictions, with 42 sectors designated as strategic since 2009, and requiring approval by a high-level cabinet committee for foreigners to enter any of the sectors. Russia remains a highly statist economy that is characterised by pervasive corruption. The country ranks at 22% on freedom from corruption; 25% on protection of property rights; and 40% on financial freedom. Corruption is undermining Russia's modernisation efforts. Transparency International ranks Russia's elected officials, civil servants and police as the most corrupt compared with the other BRICS. It is far from a modern economy. However, its bid to join the World Trade Organization and accede to the Organisation for Economic Co-operation and Development could go a long way in encouraging the country to address some of these challenges.

India scores poorly on business freedom at 36.9%, and the country is characterised by a burdensome regulatory framework and a weak legal framework. Investment freedom is weak at 35%, with foreign investment facing restrictions in some industries and capped in others. The country also lacks bureaucratic transparency and has great difficulties in enforcing contracts. State-owned enterprises dominate the banking sector and capital markets. Twenty-eight state-owned enterprises control about 70% of commercial banking assets; and access to finance is difficult. It is no wonder that India scores only 40% for its financial freedom. Foreign banks account for less than 10% of total assets and may not retain more than a 5% equity stake in a domestic private bank. The insurance subsector is partially liberalised. Intellectual property protection is not performing well, with a score of 50%. India is battling with pervasive corruption in government procurement of telecommunications, power and defense contracts.

China scores poorly at 36% for freedom from corruption, with corruption having infiltrated banking, finance, government procurement and construction. According to accounts based on China's Central Bank, Chinese officials reportedly stole $120 billion from the mid-1990s to 2008. It is estimated that between 1 600 and 1 800 officials who worked in state-owned enterprises have funneled money gained through corrupt activities into offshore accounts based in the US, Australia, Canada and the Netherlands.[55] The country has a weak judicial system, with court decisions sometimes ignored with impunity. All land is state-owned and can be leased from the state. China is known for its weak enforcement of intellectual property, and scores 20% in this respect. The state has a firm grip on the financial system, with all large financial institutions falling under state control. Capital allocation is distorted, with major state-owned enterprises favoured above private entrepreneurs. Financial freedom scores poorly at 30%.

South Africa generally performs better than other BRIC members on economic freedom. It has a fair scoring on financial freedom at 60%. The financial sector accounts for 20% of the country's GDP. The country has well-developed capital markets anchored in the Johannesburg Stock Exchange – one of the 20 largest stock exchanges in the world by market capitalisation. There are deficiencies in the lack of transparency in regulations and rigid labour laws, which act as a disincentive for investors. Corruption is the biggest challenge undermining economic freedom and, possibly, future political stability in the country. South Africa has a scoring of 47% on corruption, with the police and home affairs singled out by the Heritage Foundation/Wall Street Journal as the two main public institutions that are highly corrupt. Table 4 (see page 24) illustrates the Transparency International's Corruption Perception Index and compares the rankings and scores among the BRICS countries.

It is not that corruption does not exist in the Western world. It is just that, comparably, the BRICS institutions aimed at fighting corruption are weak, and often subject to political pressure. Moreover, corruption is a serious hindrance to improving socio-economic conditions of citizens, and could undermine political and economic stability. Weaknesses in the judiciary systems in some of the BRICS mean that there are little prospects of punishing politically powerful individuals.

Pointing out the weakness or institutional voids existing in the BRICS does not suggest that these countries are not on the rise or that they should be judged harshly as investment destinations. Rather it is to highlight two factors. The first is that these countries are still maturing. Consequently, there are inherent risks or institutional voids existing in countries at their level of growth and development. The second factor is that this is intended to show the divergences that exist between the BRICS in this category. Detailed strategic mapping will enable South Africa to raise these voids during discussions with its counterparts. South Africa's businesses could encounter further voids or opaque regulations in the emerging powers. Thus it is important that these also form part of a conversation between government and business domestically regarding South Africa's foreign policy and commercial diplomacy.

Table 4: BRICS Transparency International's Corruption Perceptions Index, 2010

Country	Ranking	Score
Brazil	69	3.7
Russia	154	2.1
India	87	3.3
China	78	3.5
South Africa	54	4.5

Source: Transparency International, 'Corruption Perceptions Index 2010 results', http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results

AN AFRICA-ORIENTED STRATEGY

Beyond focusing on the emerging economies and the BRICS in particular, South African policymakers and corporates should develop better advantages in the African continent through a carefully developed commercial diplomacy strategy. It is in the African continent that South Africa should be investing much of its energies and generating advantages for its corporates to expand and deepen their footprint. Besides commercial diplomacy, government needs to be a lot clearer about its foreign policy objectives in the African continent. These include being more proactive in offering development assistance, expanding infrastructure projects and supporting democratic consolidation.

The antiquated model of foreign policy and diplomacy that exists in South Africa is marked by separation between politics and economics, interests and values. This no longer applies to policy practice today. Foreign policy instruments, in line with global changes, express the fusion between political objectives and commercial interests, and between values and interests.

Practically, the South African government should devote resources towards developing and outlining a bold commercial diplomacy strategy. Diplomatic training and South Africa's diplomatic missions abroad will need to reflect this new focus. Critically, this needs to align closely with various domestic policies on growth and development. It will not be possible to harness South Africa's foreign economic strategy in the African continent and beyond so long as various government agencies are misaligned and there is a chasm between government and big business. Accordingly, the Economic Development Department, the Department of International Relations and Cooperation and the Department of Trade and Industry should closely co-ordinate work on Africa.

Tight planning and co-ordinated movement is required. This should take place beyond the cluster system of government, which tends to be overloaded with a huge amount of administrative detail rather than strategic thinking.

Further, the South African government should harness its various agencies in implementing commercial diplomacy objectives. These agencies include Trade and Investment South Africa, to focus mainly on key export markets, and with a clearly defined national export strategy and strategic promotion of investments; the Industrial Development Corporation (IDC), to fund major capital and infrastructure development projects that could generate export momentum in South Africa; the Development Bank of Southern Africa, for infrastructure roll-out; the Public Investment Corporation, to invest in strategic areas and co-ordinate its work with the IDC; and various state-owned enterprises, to take advantage of opportunities in infrastructure, transport, oil and gas, and minerals.

Regions are important testing grounds for pursuing a coherently defined foreign policy that prioritises gaining commercial advantages. On this front, South Africa's foreign policy is still trapped in the old paradigm and characterised by rhetoric. It risks being overshadowed by external actors such as China and India, which have recently begun to raise the commercial stakes and increase their developmental assistance in Africa. It would be embarrassing for South Africa to perpetually play a catch-up game in its own region. China and India are offering concessional loans and grants, and are supporting infrastructure development. They have extended generous debt relief and opened up markets to Africa's goods and products. Although South Africa does not need to follow suit, it should demonstrate its seriousness about engaging Africa in a more focused manner, to derive benefits from such relations. There is also a need for both government and corporates to work a lot more collaboratively on evolving South Africa's economic diplomacy approach to the continent.

Significantly, South Africa's boldest statement to emerge on Africa recently came not from the Department of International Relations and Cooperation, but from the Economic Development Department. During his 2011 budget vote, Minister Ebrahim Patel highlighted one of the four areas of intended impact for the New Growth Path as Africa's economic development.[56] The developmental focus in the rest of the African continent is supported by an allocation of between ZAR[57] 7 billion to ZAR 10 billion to be ploughed into projects with strong backward and forward linkages to the South African economy. Such projects would generate importation of goods produced by South African companies that are supported by the African Fund. In this way, South Africa would develop a supplier network to feed into Africa-oriented investment. This bodes well for the overall thrust of the New Growth Path to create more jobs in the local economy. However, the lack of policy and institutional co-ordination undermines South Africa's economic diplomacy on the African continent.

The South African government needs to put more energy into its Africa Strategy than expending huge diplomatic capital on the BRICS. Following the direction of investment focus by significant corporates would provide a better idea of which countries and sectoral areas government should be focusing on. The McKinsey Report, *Lions on the Move*,[58] makes a compelling case for the need to pay a great deal of attention to the African continent generally. It makes interesting observations that South Africa's political elites should heed. The report highlights the improving macroeconomic conditions, regulatory reforms, and political stability in much of the continent. It projects that Africa's collective

GDP at $1.6 trillion in 2008 is set to rise to $2.6 trillion by 2020. Combined consumer spending at $860 billion in 2008 is set to rise to $1.4 trillion by 2020.

Africa's resurgence has also been evident in the total capital flows in the form of FDI, bank lending, and investor purchases of equity and debt securities from African issuers. This has witnessed an increase from $15 billion in 2000 to $87 billion in 2007 just before the global financial crisis.[59] This picture suggests that Africa is more than just an avenue for the attraction of foreign aid, and is ripe for commercial engagement. Traditional thinking about development has discounted commerce as a tool for promoting development. Such thinking has limitations. In all known cases where countries have successfully overcome economic backwardness and built modern institutions and infrastructure, commerce has played a crucial role in promoting development. Institutional weaknesses were addressed simultaneously with efforts directed at improving the business climate and fostering entrepreneurship.

In view of Africa's upward economic trajectory, it makes no sense to lack a clearly defined foreign policy framework that takes these developments into account. There are currently no concrete government-supported commercial projects in major and rising economies in Africa such as Angola, Nigeria, Kenya, and Egypt; as well as resource-rich markets such as the new oil kid on the block, Ghana, and the Democratic Republic of Congo and Congo-Brazzaville.

High-level diplomatic gatherings with other BRICS countries, such as the Sanya Summit, have no demonstrable commercial gains for South Africa, besides long and sometimes obfuscating declarations at the end of the summits. It is on the African canvas that South Africa can rescript its leadership role and reawaken its greatness.

CONCLUSION AND RECOMMENDATIONS

The global system is undergoing dramatic shifts in economic power, with the triad of North America, Europe and Japan no longer in full command, and recognising the need to share leadership and responsibility with emerging powers. However, it would be a misconception to view the West, with its enduring intellectual tradition, as declining. The world can no longer be understood in narrow terms of the East versus the West, as in the Cold War scenario. Much has changed, and interests are now more intertwined than in previous eras.

The Western liberal heritage and ideals of freedom need to be defended, particularly in light of the opposing policy actions of the West being the greatest threats to this tradition.

In the evolution of the BRIC forum and South Africa's recent membership, it is important that the country carefully considers its position, which the paper suggests is a strategic blunder. This is particularly so in relation to the potential that Africa could afford South Africa. Many institutional voids exist in emerging countries, and it is crucial that governments and corporates take steps to overcome these if they are to further their development.

A number of recommendations can be made for South Africa's future engagement in the BRICS and beyond. Firstly, South Africa stands a far better chance of success in maximising commercial opportunities by deepening its bilateral relations with each of the BRIC countries and other emerging and developed economies, guided by its own strategic and commercial interests, than through joining the BRICS forum. It could be argued that

BRICS membership reflects a lack of clear strategic thinking on the part of South Africa about where its interests lie and how it should pursue them.

South Africa would benefit from the kind of strategic mapping undertaken by Ronald H Brown and Jeffrey Garten in the US to identify the challenges global change poses and how the country could effectively pursue its economic interests. This needs to be done with regularity in response to constant change in the global economy. Commercial gains may not necessarily be achieved through membership of clubs such as the BRICS. Garten identified important factors about emerging powers that the US selected in the early 1990s to seriously engage. These were countries that are growing fast; are on track with liberalising their trade; have solid economic fundamentals; and have untapped potential and growing markets.[60]

Secondly, South Africa needs to sharpen its commercial diplomacy. Identifying clear economic sectors for export purposes that could benefit its economy in each of the emerging powers requires co-ordinated strategic planning between different agencies of government that operate at the nexus of the domestic and the global spheres, and a great deal of interaction with the business sector. Countries that are more aware of the opportunities and challenges posed by emerging powers have sharpened their commercial diplomacy strategies. There continues to be a strong commercial diplomatic thrust in the US foreign policy, which is highly focused on bilateral relations.

In its 2010 National Security Strategy, the Obama administration underscored the importance of 'building at home, shaping abroad' as an overarching theme. This essentially implies the use of foreign policy to advance national economic prosperity.[61] It states the need for renewing the US economy as the basis of its leadership abroad. It further identifies emerging powers, such as China, India, Indonesia, Brazil and South Africa, as within the sight of US strategic interests and as countries with which the US will seek to deepen co-operation. Obama followed this through by appointing Jeffrey Immelt, the chief operating officer of iconic General Electric, to chair the US Competitiveness Council, expressing a commitment to working closely with business in addressing deficiencies in the US economy and igniting its export capacities. Commercial diplomacy – a strategy aimed at maximising the country's commercial opportunities abroad through its foreign policy – is very much part of US foreign policy thinking and practice.

Leading US companies, such as Honeywell, General Electric, and Boeing are at the centre of US commercial diplomacy, a practice that requires strategic collaboration between government and business. Another example of how to respond to global change by both broadening and focusing is that of the UK's foreign policy under William Hague, the foreign secretary. In his first foreign policy speech, Hague noted the shift in economic power towards emerging powers such as Brazil, China and parts of Asia, as well as Turkey and Indonesia. He boldly asserted that UK embassies abroad will be used as instruments for pursuing commercial diplomacy, in order to gain advantage for UK commercial interests.[62]

When the coalition government took over in Britain in May 2010, Prime Minister David Cameron sought out private sector expertise, appointing a number of respected businesspeople to various advisory councils and appointing some as 'business ambassadors' to fly the country's flag. The lesson here is that if South Africa is serious about improving its competitiveness and carving out a significant space for itself in the world, government would need to work a lot more closely with business. This would form the basis of developing a strong platform for effective commercial diplomacy.

Thirdly, government and business need to pay closer attention to various institutional voids discussed in the paper, and co-ordinate thinking on how these can be raised effectively during bilateral discussions with other emerging powers and the other BRICS countries. Such institutional voids take the form of regulatory barriers to investment, opaque standards and bureaucratic procedures, as well as non-tariff barriers. Although the other BRICS are undoubtedly important and politically and economically influential in many respects, constituting themselves in a club format with no clear agenda is rather meaningless. As these countries' interests are unlikely to converge strongly on most of the critical international issues, engaging in such a forum, with its pretense and the waste of resources, does not make sense.

Such an exclusive club could cast South Africa in an unfavorable light in the African continent should the other BRICS fall out of favour with African countries in which they are commercially active. BRICS membership also diverts South Africa's diplomatic focus from what is of strategic value in its own continent. Such misallocation of resources and energy could indeed prove costly.

Finally, deepening relations in Africa and evolving an Africa-focused commercial diplomacy should be a priority. South Africa needs to develop an emerging power strategy that goes well beyond the BRICS. It should be canvassed properly with the business community and pursued in a focused manner at the bilateral level. The explicit economic focus on Africa in Minister Ebrahim Patel's budget speech in 2011 is in this respect sensible.

A powerful complement would be an effort aimed at identifying regulatory barriers to South African businesses operating in the African continent, and for government to lend political support to them, especially in the face of growing competition from China, India and Brazil. This needs to be packaged in a well-developed African strategy that shifts from the old paradigm of simply emphasising economic development in ambiguous terms, to framing economic development within a clearly articulated commercial policy on Africa.

Growing commercial density by South African businesses will have development spin-offs. A framework encouraging good corporate behaviour should undoubtedly form part of such a commercial diplomacy strategy. Government and corporates need to work closely in promoting South Africa's interests in Africa and in emerging economies.

ENDNOTES

1 The G20 comprises Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, the EU, the UK and the US.

2 The argument about the triumph of Western liberal ideas is well laid out in Francis Fukuyama's magisterial text, *The End of History and the Last Man* (New York: Free Press, 1992). It argues that liberty, which also encapsulates democracy, best expresses man's ultimate spiritual desire. The text is a distillation of a tradition developed by Friedrich Hegel and weaves its way through various other thinkers who sought to understand the relationship between human desire and established political systems.

3 O'Neill J, 'Building Better Global Economic BRICs', Goldman Sachs Global Economics Paper, 66, 30 November 2001, http://www2.goldmansachs.com/our-thinking/brics/building-better.html, accessed 2 September 2011.

4 Wilson D & R Purushothaman, 'Dreaming with BRICS: The Path to 2050', Goldman Sachs Global Economics Paper, 99, 2003, http://www2.goldmansachs.com/our-thinking/brics/brics-dream.html, accessed 2 September 2011.

5 See http://www2.goldmansachs.com/our-thinking/brics/brics-dream.html, accessed 2 September 2011.

6 Wilson D & A Stupnytska, 'The N-11: More Than an Acronym', Goldman Sachs Global Economics Paper, 153, 2007, http://www.chicagobooth.edu/alumni/clubs/pakistan/docs/next11dream-march%20'07-goldmansachs.pdf.

7 Bremmer I & P Keat, *The Fat Tail*. Oxford: Oxford University Press, 2009, p. 67.

8 Wilson D & A Stupnytska, *op. cit.*, p. 2.

9 Garten JE, *The Big Ten: The Big Emerging Markets and How they will Change our Lives*. New York: Basic Books, 1997.

10 *Ibid.*

11 *Ibid.,* pp. 13–15.

12 *Ibid.* Chapter 8 of Garten's book is devoted to the theme 'a vigorous commercial diplomacy'. It argues for the need for departure from traditional foreign policy towards a strong economic and trade component. This focus is tied to national economic prosperity, in particular improving economic vitality and job creation.

13 Haass RN, 'The age of nonpolarity: What will follow US dominance?', *Foreign Affairs*, 87, 3, 2008, pp. 44–56.

14 *Ibid.*

15 Marber P, *Seeing the Elephant: Understanding Globalization from Trunk to Tail*. Hoboken: Wiley & Sons, 2009, p. 9.

16 *Ibid.*

17 Keohane RO, *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton: Princeton University Press, 1984, p. 57.

18 Keohane RO, *ibid*., pp. 32–34, defines hegemony as 'preponderance of material resources' and based on four sets of resources: control over raw materials; control over sources of capital; control over markets; and competitive advantage in the production of highly valued goods. US power in most of these sets is on the wane, creating something of a vacuum.

19 This theme is covered extensively in contemporary debates on global finance and trade. See Eichengree B, *Global Imbalances and the Lessons of the Bretton Woods*. Cambridge, Massachusetts: MIT Press, 2010, pp. 4–23; Abdelal R, *Capital Rules: The Construction of Global Finance*. Cambridge, Massachussettes: Harvard University Press, 2007, pp. 1–18; and Rodrik D, *The Globalization Paradox: Democracy and the Future of the World Economy*. London: W.W. Norton & Company, 2011, pp. 67–88.

20 Gilpin R, *The Political Economy of International Relations*. New Jersey: Princeton University Press, 1987.

21 Mahbubani K, 'The case against the West: America and Europe in the Asian century', *Foreign Affairs*, 87, 3, 2008, pp. 111–124.

22 See Moisi D, *The Geopolitics of Emotion: How Cultures of Fear, Humiliation and Hope are Reshaping the World*. London: The Bodley Head, 2009; and Emmott B, *Rivals: How the Power Struggle Between China, India and Japan will Shape our Next Decade*. London: Penguin, 2009.

23 Mahbubani K, 'The case against the West: America and Europe in the Asian century', *op. cit.*, p. 119.

24 Mahbubani K, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*. New York: PublicAffairs, 2008, pp. 101–103.

25 *Ibid.*, p. 102.

26 Emmott B, *op. cit.*, p.14.

27 Ferguson N, *The Ascent of Money: A Financial History of the World.* London: Penguin, 2009, pp. 333–335.

28 *Ibid.*

29 Nye J, *The Future of Power.* New York: PublicAffairs, 2011, p. 57.

30 Rachman G, *Zero-Sum Future: American Power in an Age of Anxiety.* New York: Simon & Schuster, 2011, p. 186. One of the interesting issues here, as pointed out by Rachman, is that the military absorbs 50% of discretionary spending, and the debt situation tightens the leash on military expansion in the future. On the other hand, China does not have similar strictures.

31 Ferguson N, *Civilization: The West and the Rest.* London: Allen Lane/Penguin, 2011, pp. 12–14.

32 Fukuyama F, *op. cit.*

33 Hutton W, *The Writing on the Wall: China and the West in the 21st Century.* London: Little, Brown Book Group, 2007, p. 4.

34 *Ibid.,* p. 5.

35 This notion of argumentative tradition is discussed by Amartya Sen in the context of the evolution of India's culture and society as deeply sceptical, reasoning and questioning. This, according to Sen, bears powerful substance for the future vitality of its democracy. See Sen A, *The Argumentative Indian: Writings on Indian History, Culture and Identity.* New York: Farrar, Straus and Giroux, 2005.

36 See Frieden JA, *Global Capitalism: Its Fall and Rise in the Twentieth Century.* New York: WW Norton, 2007, pp. 426–428.

37 See Amann E, 'Technology, public policy, and the emergence of Brazilian multinationals', in Brainard L & L Martinez-Diaz (eds), *Brazil as An Economic Superpower? Understanding Changing Role in the Global Economy.* Washington, DC: Brookings Institution Press 2009, pp. 196–197.

38 For a detailed coverage of the dispute, see Hille K, 'Huawei and ZTE trademark row escalates', *Financial Times,* 13 May 2011, http://www.ft.com/cms/s/0/e8426e90-7cbd-11e0-994d-00144feabdc0.html#axzz1QPhaBAYg.

39 Emmot B, *op. cit.*

40 Gaddis JL, *We Now Know: Rethinking Cold War History*. Oxford: Oxford University Press, 1997, p. 198.

41 This refers to a situation where a government would prevent the take-over of a domestic commercial entity of a company regarded as a national champion or that is in a 'strategic' sector by a foreign entity by moving first to purchase it.

42 Fukuyama points to Hegel's observation of Napoleon's defeat of Prussia in 1806 as marking the victory of enlightenment ideals – or the end of history – a repeat of which took place with the defeat of communism by an unwavering spirit of liberty in the late 1980s.

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46 Berlin I, *The Power of Ideas*, *ibid.,* p. 16.

47 Quoted in Nye J, *op. cit*., p. 169.

48 Khanna T & KG Palepu, *Winning in Emerging Markets: A Road Map for Strategy and Execution*. Boston: Harvard Business School Publishing, 2010.

49 Bremmer I, *The End of the Free Market: Who Wins the War Between States and Corporations?* New York: Penguin, 2010, p. 116.

50 WEF (World Economic Forum), *Global Competitiveness Report 2010–2011*. Geneva: WEF, 2010, http://www.weforum.org/reports/global-competitiveness-report-2010-2011-0.

51 *Ibid*.

52 The report can be accessed at http://www.heritage.org/index. The author has used the report extensively in the section, and paraphrased in parts. The BRICS selection is the author's construction.

53 The Heritage Foundation & *The Wall Street Journal*, *2011 Index of Economic Freedom*. Washington, DC & New York: The Heritage Foundation and Dow Jones & Company, Inc., 2011, http://www.heritage.org/index/, accessed 2 September 2011.

54 See http://www.heritage.org/index.

55 BBC News Asia-Pacific, 'Chinese officials stole US$120bn, fled mainly to US', 17 June 2011. http://www.bbc.co.uk/news/world-asia-pacific-13813688.

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59 MGI, *op. cit*.

60 Garten JE, *op. cit.*, pp. 29–38.

61 See US National Security Strategy, May 2010, White House, Washington, http://www.whitehouse.gov/issues/homeland-security.

62 William Hague, Foreign Policy Speech, Locarno Room, Foreign and Commonwealth Office, London, 1 July 2010.

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