

All eyes turn to Durban on setting up of Brics bank

CAPE TOWN: As South Africa wraps up preparations towards hosting the fifth Brics summit, the world will be keenly watching to see whether the leaders of Brazil, Russia, India, China and South Africa can conclude negotiations on setting up a Brics development bank.

The Brics summit will be held in Durban on the 26 and 27 March 2013.

Emerging markets analysts believe a Brics development bank - which was first mooted at last year's Brics summit in Delhi, India - can help create jobs in South Africa and promote greater trade on the African continent by funding new infrastructure.

Last week, International Relations and Cooperation Minister Maite Nkoana-Mashabane told City Press that South Africa was keen to host the development bank, saying that the country had a history of sound financial expertise and that the African continent was home to seven of the 10 fastest growing economies.

The Minister of Trade and Industry Rob Davies said this week that South Africa had a strategic interest in extending Brics cooperation to support Africa's development agenda. He added that he believed Africa's relationship with Brics has influenced growth in the continent.

The finance ministries from the five member countries have been working on a business plan for the development bank and last month member state finance ministers met at the sidelines of the G20 summit to explore the bank's potential structure.

World Bank chief economist Kaushik Basu has backed the idea for a Brics development bank, but has warned it would be a "humongous task" to set up.

While Martyn Davies, the chief executive of Frontier Advisory, said in January that there had been discussion of a fund of up to \$240-billion, Standard Bank expects each of the five member states to initially contribute \$10 billion in seed capital to the bank, with further funds raised from the markets as necessary.

However, Standard Bank research analysts Jeremy Stevens and Simon Freemantle cautioned that China's eventual contribution may outpace that of the other Brics members to the joint development bank and that Beijing would, understandably, demand commensurate influence over the fund's decision-making mechanisms.

In a research note last month, the two pointed out that while for China \$10 billion amounts to just 0.12% of gross domestic product (GDP) (as per 2012), the same contribution would constitute a far more hefty 2.5% of South Africa's total economic output.

Added to this, China dominates Brics trade and is the number one import partner for all four of its Brics partners and its economy at the end of 2012 was almost 25% larger than the other four Brics nations combined.

"Unless pragmatically managed, political strains similar to those faced within the IMF may emerge. An appreciation of this potential challenge should thus frame deliberations in Durban," said Stevens and Freemantle.

They expect the development bank to focus on infrastructure development and providing auxiliary support for project preparation, such as feasibility studies.

They said they expected a working group to be later tasked with establishing the necessary technical commitments and governance structures.

The two believe that the development bank would not be a counterweight to multilateral development banks - notably the World Bank - but rather act as an auxiliary funding institution.

In a parliamentary reply this week in response to a question from an opposition MP on what the impact had been of South Africa's membership to Brics, the Minister of Economic Development Ebrahim Patel said the country had achieved several benefits.

Patel said South Africa had grown its level of trade with the Brics countries, it has seen significant growth in tourism from other Brics countries, was now a stronger destination for potential investment and able to influence the development of greater Brics partnerships with the rest of the African continent.

On trade, the four Bric countries now account for a larger share of South Africa's imports and exports. Measured in US Dollars, exports from SA to Bric countries rose from \$12.1 billion in 2010 to \$15 billion in 2012, he said

"This helped to compensate for reduced demand from traditional markets which are experiencing slower or negative growth," he added.

Earlier this month, the South African government appointed the Human Sciences Research Council (HSRC) to serve as an incubator for the South Africa Brics Think Tank ahead for an initial period of one year.

Officials from the five countries met in Durban over a weekend earlier this month for a workshop aimed at mapping a long-term strategy for a mooted consortium of Brics think tanks.

According to the HSRC, the think tank will conduct policy research and analysis to help inform the long-term strategy of the Brics group.

This week the heads of customs administrations of the Brics countries met in Bela Bela to prepare for the summit, with the aim of developing customs capacity in technology and procedures and to agree to exchange information to combat illicit activity.

Festivities will kick off with a beach festival in Durban on Sunday as well as concerts, before the 5th Brics Business Forum runs on Tuesday.

The conference itself will take place on Wednesday.