



The BRICS: HalfWay There

Building a country: BRIC by BRIC
Lessons for SA & Emerging Markets

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South Africa



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BRICS



Origins of the BRICS

- **Jim O'Neil – 2001:** 'Building better economic BRICs'
 - 2009: Russia forms the bloc; 1st summit held
- **South Africa** – Not originally included
 - 2010: Invited by the big 'C' to join
 - A small 's' at best
 - Punching above it's weight
 - For better or for worse?

"South Africa is a drag on the dynamics of the BRIC grouping"

- Jim O'Neil, 2012

Why the interest?

- 3 global superpowers

BRICS

- Second largest economy

BRICS

- Largest land mass

BRICS

- Largest populations

BRICS

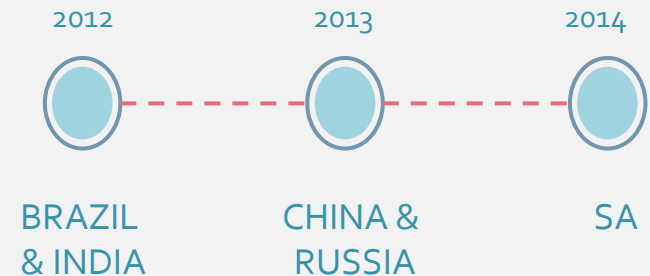
- Drivers of global growth

BRICS

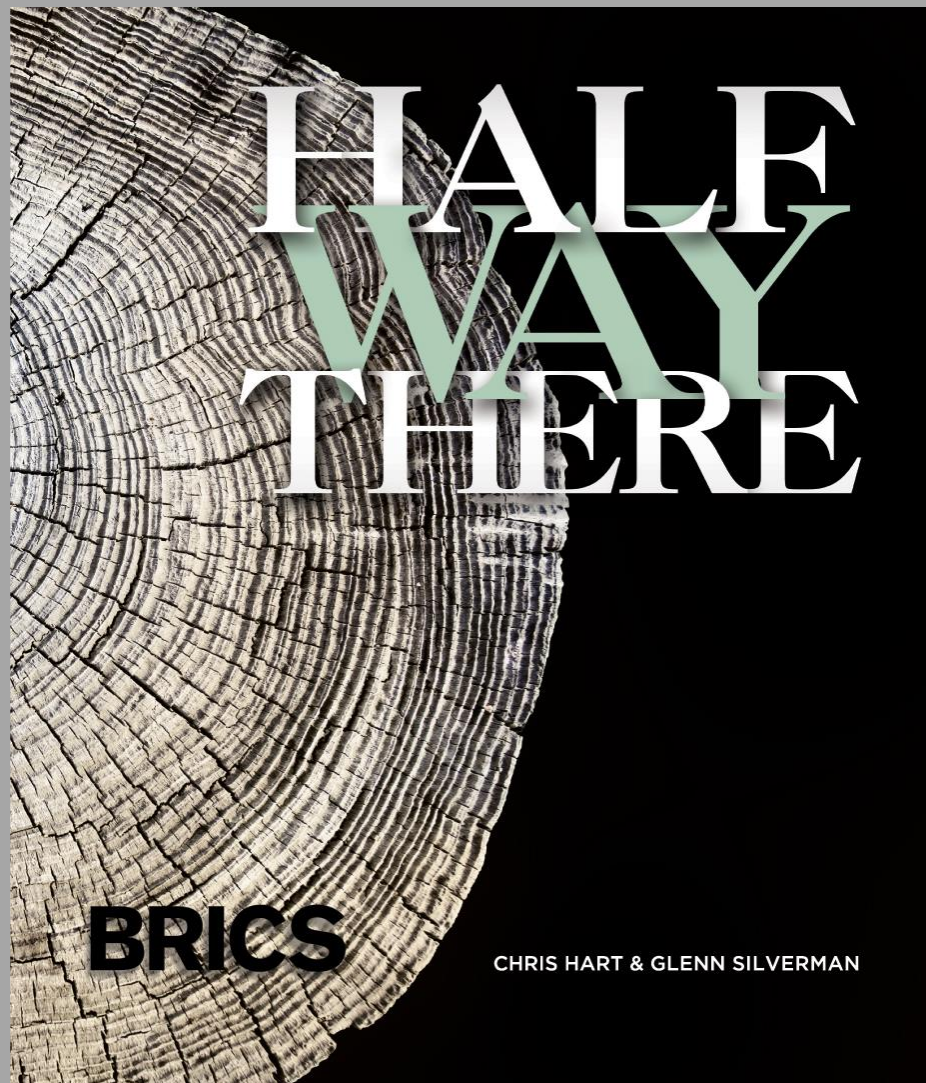
But, the group soured over time



TRIPS



The book project & the book



Key Stats

- 2½ years; 9 months
- Launch 2014; 4x Cities
- > 90,000 km
- Sources of info:
 - 14 Cities
 - 81 Meetings
 - 33 Tours & more...
- 50 contributors
- 2,500 books; All proceeds to charity; Sold out

- # 1 : Overview: Cities, Meetings and Tours
- # 2 : Country Insights; Key lessons learnt
- # 3 : Our Unique Lenses
- # 4 : Key Insights and Comparisons
- # 5 : Conclusion

Major Cities Visited - 14

B

Sao Paulo (22m)
Rio de Janeiro (13m)

R

Moscow (17m)
St. Petersburg (5m)

I

Bangalore (10m); Agra (1m)
Mumbai (23m); Delhi (25m)

C

Singapore (5m)
Hong Kong (7m)
Shanghai (29m); Beijing (22m)

S

Johannesburg (9m)
Cape Town (4m)

Insights

- Scale/size
- Congestion
- Infrastructure
- Sustainability

And so much more...



Meetings Held - 81

	Meetings	Insights
B	18	• Diverse range of industries • Complexity • Ambiguity • Impressive • Culture Lead to: Our learnings and insights, and the 5x IS lenses
R	15	
I	21	
C	15	
S	12	

	#	Examples	Some insights
B	5	• Itaipu • Favelas	• Long history • Deep culture • Fear of foreigners • Highlighted the scars
R	8	• Kremlin • Peterhof Palace	
I	7	• Dharavi • Taj Mahal • Bollywood	
C	7	• Great Wall • Forbidden city	
S	6	• District 6 museum • Townships	

2.

Country Insights



BRAZIL

"Samba no more?"



"There used to be a cruel joke that said Brazil is the country of the future, and always will be"

– Charles Krauthammer

"They have a joy for life in Brazil, unlike any country I've ever seen"

– Morena Baccarin

Brazil - Highlights

- Population: 200m (Formula: SA x4); World Rank #5
- Land mass: World Rank #5
- Renewable freshwater: World Rank #1; Forest area: #2
- GDP: World Rank #7
- 27 states; Portuguese speaking
- Unemployment rate: 12% (2014: 6%); Public debt 78% (2017)
- Urbanisation rate: 86% (Note: US: 82%; SA: 65%; India 33%)

To Do

- Patriotism; Cohesion
- Protect natural resources
- Job creation; Full employment
- Removal of corrupt officials: President impeached

Not To Do

- Military dictatorship
- Corruption
- Hyperinflation
- Closed economy; Limited competition
- Govn spending; Debt

RUSSIA

"The return of the Tsar"



**"Russia is a riddle wrapped in a mystery
inside an enigma"**

- Winston Churchill

"It's not what you know but who you know"

- Anonymous

**"Moscow and St Petersburg are simply not
Russia"**

- Anonymous

Russia - Highlights

- Population: 143m: World Rank #9
- Land mass: World Rank #1; Covers 9 time zones!
- Forest area: World Rank #1
- Natural gas: World Rank #2 ; Oil: #8
- GDP: World Rank #6
- Public debt: 13% (14%)
- Unemployment rate: 5.3% (2014: 6%)
- 8 states; Cyrillic; Ex Communist

Russia - Lessons learnt

To Do

- Conservative balance sheet
- Creation of SWFs - oil windfall
- And little else.. [Huge ability to absorb pain!]

Not To Do

- Poor national transition
- Weak institutions;
Disregard of constitution;
Patronage system
- Over-reliance on one key economic sector
- Pollution; Xenophobia etc

INDIA

"The crouching tiger"



"India is not a nation, nor a country. It is a subcontinent of nationalities"

- Muhammad Ali Jinnah

"India only reforms in crisis"

- Edward Luce

"India grows at night while the government sleeps"

- Gurcharan Das

| India - Highlights

- Population: 1.3bn; World Rank #2; The world's largest democracy
- Land mass: World Rank #7
- GDP: World Rank #3
- Public debt: 68% (2014: 67%)
- 29 states; 1650+ languages/dialects
- Unemployment rate 3.6%* (2014: 9%*)
 - Yet 30% (390m) below poverty line ie. earn < \$2/day!

| India - Lessons learnt

To Do

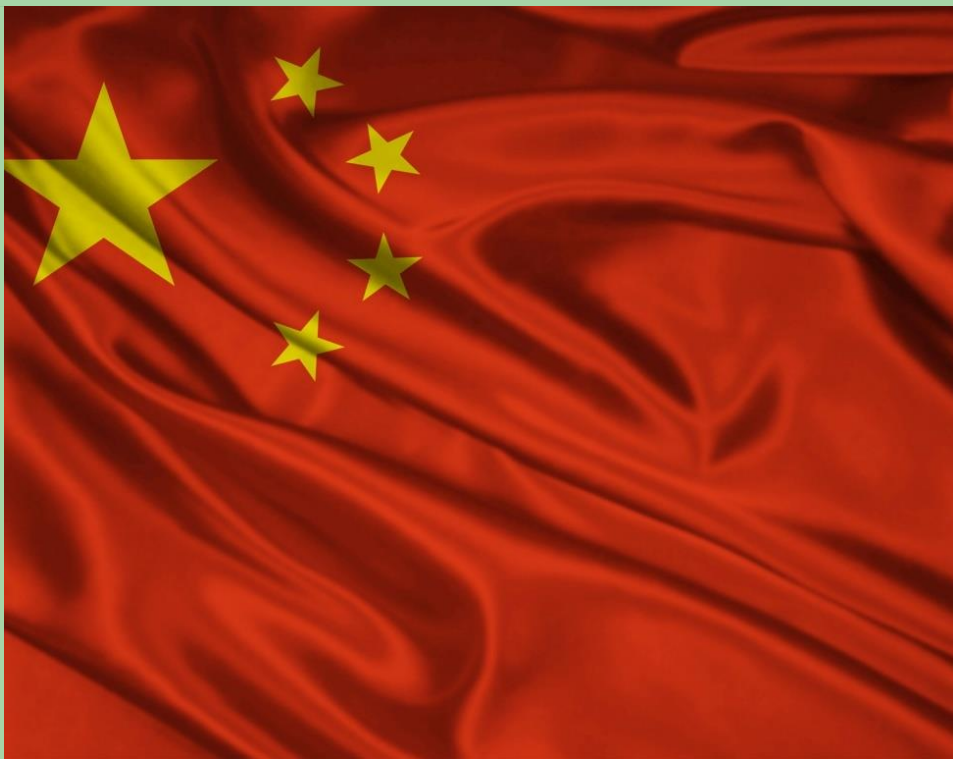
- Democracy; English; Rule of Law etc
- People: Positivity; Energy; Entrepreneurship
- Economic growth; Job creation
- New government & leader

Not To Do

- Red-tape; Corruption; Large & intrusive govn (Financial repression)
- Religious intolerance/war
- Social issues: Poverty; Inequality; Gender; Class; Caste etc

CHINA

"The dragon leading the BRICS dance"



"The Party is like God. It is everywhere; you just can't see it"

– Richard McGregor

"Beware the sleeping dragon, for when she awakens the world will tremble"

– Winston Churchill

"Whoever thinks they understand China probably does not"

- Anonymous

China - Highlights

- Population: 1.4bn; World Rank #1; Communist state
- Land mass: World Rank #4
- GDP: World Rank: #2
- Public debt: 26.5% * (2014: 22%);
- Unemployment rate 4%* (4%*)
- 23 states; Mandarin

China - Lessons learnt

To Do

- People: Hard working;
Smart; Entrepreneurial
- Leadership/Govt:
 - Take LT views
 - Yet simple 5-year plans
 - Fixated on delivery
 - Superb infrastructure
 - Free industrial zones
 - Test & re-test

Not To Do

- Communism: A huge cost!
- Inefficient SOEs
- Bubbles: Debt; Property;
Stocks; A culture of
gambling
- Political repression;
Disregard for human rights

SOUTH AFRICA

"Just a briquette?"



"Of course South Africa is not perfect... But what happened here was a miracle"

– Lili Radloff

"As South Africans, we no longer dance with one another."

- Mandisi Mphalwa

".. a rainbow nation, at peace with itself and the world..."

- Nelson Mandela

South Africa - Highlights

- Population: 54m; World Rank #25
- Land mass: World Rank #25
- GDP: World Rank: #25
- Public debt: 50% (2014: 45%);
- **Unemployment rate 27%** (2014: 25%)!
- 9 provinces; 4 main racial groups (but 11 official languages & 10 tribes)

To Do

- Build (& protect) strong, independent institutions
- Strong moral compass
- (Need to) 'rise above' a divisive past
- (Need to) encourage broad economic participation

Not To Do

- Corruption; Nepotism; State Capture
- Inefficient SOE's (open to the above)
- Unemployment & poverty
- High regulatory burden
- Insufficient savings/investment

The BRICS overall

Large, powerful , systemically important countries

- Their journey will have a significant global impact
- Cannot be ignored, even when they stumble
- As a bloc: What of '**Higher Purpose**'?

Each one is at a key inflection point

- Critical issues and key choices need to be made
- Structural reform is required; Will/can they do such?

The outcome lies (largely) in their hands

3.

Our Unique Lenses



1. **National Scars**
2. National Transitions
3. Economic Value Chains
4. **The Political Economy**
5. Capital Allocations

1 National Scars

- A past nightmare, if you will
- Every country has at least one
- Deeply etched into the psyche of each country
- Drives social, economic and political policy

Note: There are other NB scars too: Corporate, Personal etc

Example: National Scars

National Scars

B

- Hyperinflation

R

- Collapse of communism
- Foreign threat

I

- Colonialism
- Corruption, Red Tape

C

- Communism
- Foreign dominance

S

- Apartheid



4.

SSA: Key insights and Current update

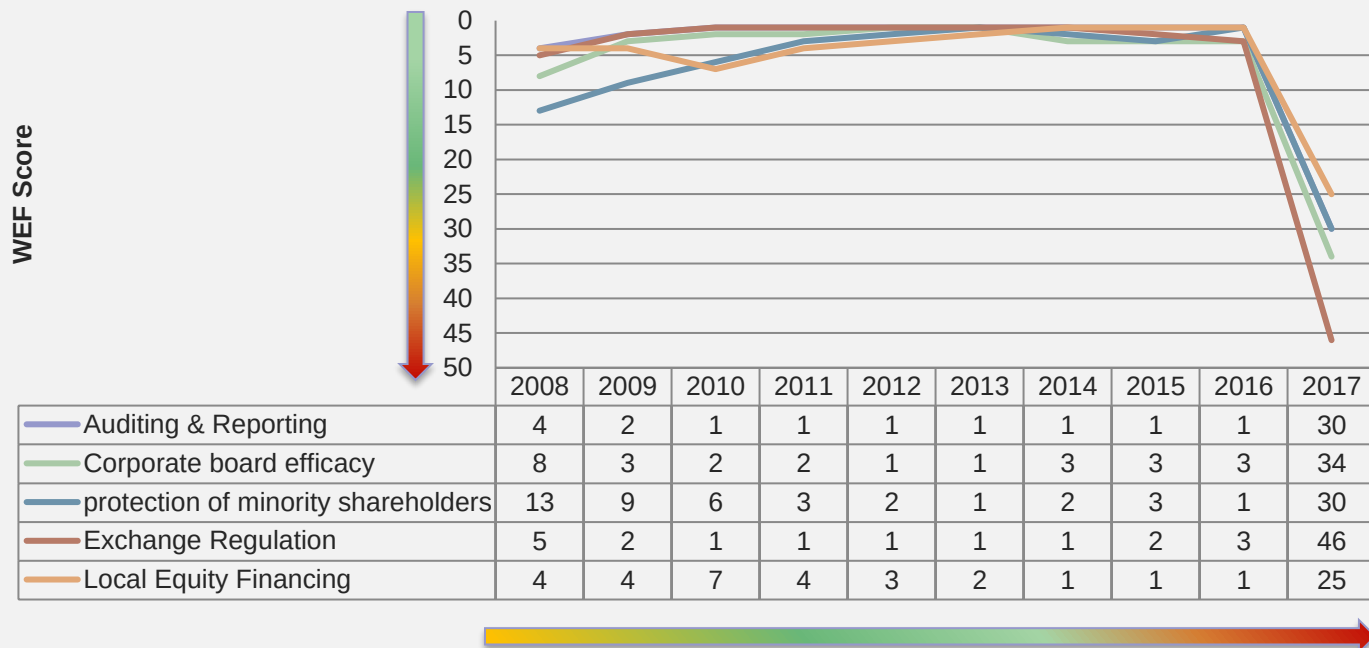


	'16	'17		'16	'17
TOP 5 STRENGTHS	Rank out of 138		TOP 5 WEAKNESSES	Rank out of 137	
Strength of Auditing and Reporting	1	30	Cooperation: Labour–Employer Relations	137	137
Efficacy of Corporate Boards	3	34	Quality of Math and Science Education	128	128
Protection of Minority Shareholders' Interests	1	30	Hiring and Firing Practices	135	125
Regulation of Securities Exchanges	3	46	Tuberculosis Cases	137	137
Financing through Local Equity Market	1	25	Quality of Educational System	134	114

HALF
WAY
THERE

But now a blowout!

WEF Competitiveness Index: SA's strengths: Fallen off a cliff



Took years to build; As long to recover?!

HALF
WAY
THERE

SA's Slow Puncture

Global comparisons	2008 Rank	2017 Rank
WEF Competitiveness Index	45 (/131)	61 (/137)
Corruption Perception Index	54 (/180)	71 (/180)
Freedom of the Press	28 (/195)	31 (/180)
Economic Freedom	57 (/157)	77 (/178)
Ease of Doing Business	35 (/181)	82 (/190)
S&P Credit Rating	BBB+	BB (BB+)

**Deteriorating long term outlook;
Largely self inflicted**

Multiple Mistakes

Worsening
Data

Underperforming
Peers



HALF WAY THERE

The good news

Two key leadership changes

- Mugabe, then Zuma, forced to resign
 - Both suddenly & unceremoniously, after appearing invincible: How & why?
- The 'final straw' / The 'tipping point'
- Key: The revolt came from within the party
 - Grace Mugabe: Appointed Vice President
 - Zuma: ANC elective conference; Guptas etc
- And possibly with some outside help?

“Some men change their party for the sake of their principles; others their principles for the sake of their party.”

- Winston Churchill

South Africa & Zimbabwe

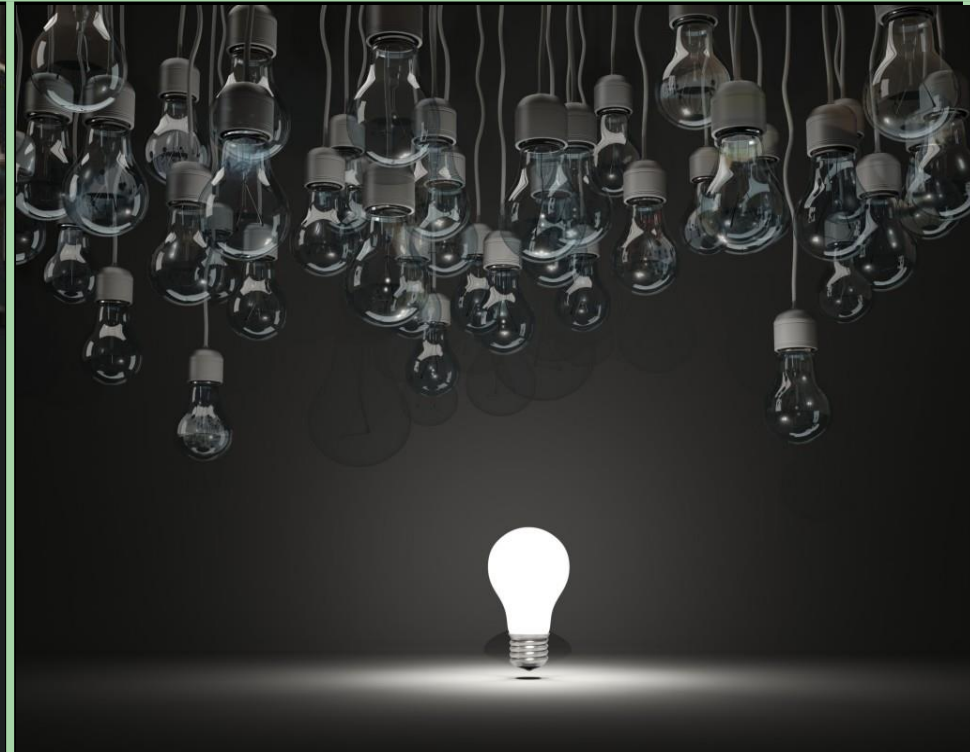
Post Zuma & Mugabe

- Ruling parties unchanged, but with new leadership
 - More market-supportive
 - And with more changes likely to follow (SA)
- Cabinet re-shuffles; In SA, Eskom re-shuffle too
- Big Rand and Market rally
- Big recovery in Business Confidence & Foreign Capital
- Next leg: Infrastructure & FDI

How long can the Honeymoon last?
Do the past leaders get off scot-free?

5.

Conclusion



HALF WAY THERE

The Big 5 for SA, SSA & many other similar EMs

1.



Reduce unemployment:
- Addresses poverty, inequality, crime etc

2.



Need strong growth
- Sustainable, inclusive and balanced

3.



Education is vital
- To reduce unemployment, grow etc

4.

**PRIVATE
PROPERTY**

Protect rule of law, institutions &
property rights: The key building blocks

5.



Focus on the private sector
- Reduce financial repression



Thank you



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South Africa

Our own version of Mugabe?

- 9 years as President
- Presidency marred by huge controversy:
 - Russian nuclear deal
 - State Capture
 - Gupta links
 - Corruption allegations
 - Rape allegations
 - And many more...



“Why do you say I should pay back the money?

You don’t even know how much.”

- Interview, 2015

#1: Reduce Unemployment

- **Sa's key policy priority!**
 - Make all others subservient
 - Fixing it will improve many others
 - Poverty; Inequality; Crime; Health etc
- **Requires out-the-box thinking**
 - Entrepreneurs; Mentors; Funding; Tax changes etc
 - We need to act and soon!

The **KEY** focus area for both SA, & others in SSA!