

## Integrating economics and foreign policy

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‘The ignorance of geopolitical minds about economics is matched only by the economics profession’s ignorance about foreign policy.’ So says the author of a new biography of Zbigniew Brzezinski, Jimmy Carter’s national security adviser, in response to a question about his subject’s view of the international trading system. ‘Alas, like most foreign policy strategists, including Henry Kissinger, George Kennan, Madeleine Albright and so on, Zbig did not engage much with economics.’

It is a very apt description of the current debate in South Africa about United States (US), South Africa and Russia relations. Our foreign affairs establishment, with one or two exceptions, displays an astonishing lack of understanding of the economic consequences of foreign affairs decisions, and most of the economic comments display an equally astonishing lack of understanding of South Africa’s geopolitical considerations. There is a pressing need to integrate economics and foreign policy in a way that will advance the interests of the country.

### Economics

The most clinical analysis of possible damage to the South African economy came from the Minister of Finance, Enoch Godongwana, when he said, in Parliament, that there are four ‘transmission channels’ through which a South African/US dispute could affect South Africa. These are:

- the currency;
- trade and supply chains [which includes the African Growth and Opportunity Act (AGOA) and sanctions];
- investment; and
- liquidity.

### The currency

We saw what the Lady R fracas did to the rand. It has since recovered somewhat, but the effect was felt when the South African Reserve Bank (SARB) increased interest rates by 0,50% rather than the generally expected 0,25% pre-Lady R. A depreciating currency creates the risk of higher inflation, which in turn necessitates higher interest rates. Individuals, companies, and government must all now fork out more on interest payments thanks to the Lady R debacle. Higher interest rates carry a cost. Period.

### Trade and supply chain

The whole AGOA debate falls in this category, but there is much more to it than just AGOA.

In 2022, the BRICS countries took a total of R291 billion from us in exports. Four Western countries (the US, Germany, Japan and the United Kingdom) took R582 billion – literally twice as much. Russia was the clear struggler – taking only R4,6 billion or less than half a percent of our exports. China was our biggest export market at R188 billion and the US was second with R178 billion.

On the supply side we imported a total of R532,7 billion from the BRICS countries, some 70% of it from China. From the four Western countries, we imported a total of R344 billion – 65% of the imports from BRICS.

Significantly, over the past four years (from pre-Covid-2019 to 2022) we ran a surplus of R718,75 billion with the West and a deficit of R569,67 billion with BRICS (largely China and India).

South Africa is a capital-scarce country. That trade surplus with the West helps to pay for the imports from BRICS. It is also clearly much more difficult for our exporters to get into BRICS than to get into the West. The foreign affairs team can help to get more products into BRICS.

### Investment

Foreign direct investment from Western countries into South Africa in 2021/22 ran at nearly \$20 billion, almost three times the \$6,9 billion from the BRICS countries. In the year before Covid-19 it ran at \$28 billion, again about two and

a half times the R10,6 billion from the BRICS countries. It is quite clear who is investing in South Africa – and it is by a wide margin not the BRICS countries, but the West. As economic power inexorably shifts from West to East, this will no doubt change. But we are not there yet.

### Liquidity

A big part of particularly the South African government's expenditure is financed by overseas investment houses making portfolio investments in the country. SARB has been outspoken, correctly so, in its warnings about foreigners' declining willingness to hold South African government debt. South Africa is generally a current account deficit country. That deficit needs to be financed. Hence the importance of liquidity.

It is important to note that these liquidity flows do not come from governments, but from private financial institutions who conduct voluntary transactions in South Africa. They work on optics and if they start holding their nose, South Africa's liquidity will be cut off. Then austerity will follow as sure as the day follows the night. That is what happened after 1985 when Citibank pulled the plug on providing liquidity for South Africa. For the next eight years, growth went down the drain and the country became relentlessly poorer. The tide turned only in 1993.

As with the other numbers, the liquidity contribution from BRICS is overshadowed by the contribution from the West. In 2021/22 about \$1,3 billion came from BRICS versus \$3,3 billion from the West (2,5 times more). If we go back to the year before Covid-19, it was \$1,8 billion versus \$4,5 billion (again 2,5 times more). Private institutions in the West are the prime providers of our liquidity.

These numbers clearly indicate the degree to which South Africa is integrated with the West, as well as its growing integration with BRICS, particularly China and India. Neither can be ignored.

### Foreign policy considerations

However, as we learn from Brzezinski's biographer, it behoves us to consider geopolitics next to the economics.

The world is splintering into three distinct political blocs:

- 1 The West, including Japan and Australia/New Zealand, although the latter are in the East (essentially the G7).
- 2 A China bloc, which is not as cohesive as the G7, but clearly shaping up.
- 3 The Global South, which can loosely be defined as non-aligned countries steering clear of both blocs and subscribing to the principles of the Bandung Conference of 1955.

There are of course many overlaps, and one must not think too rigidly about these blocs. The Global South includes China. BRICS fit into the Global South. India is part of BRICS and the Global South but is also building strong defence relationships with the US and other G7 countries. Even so, these blocs are taking shape, with widely divergent political views.

The Russia-Ukraine war has thrown this trifurcation into sharp relief. Governments representing about 85% of the world's population, including most countries outside the G7, refused to take sides in the war and kept their distance. The G7 represents about 10% of the world population and 42% of global GDP.

### South Africa's position

Economically, South Africa is firmly integrated into the G7, and to a much lesser extent into BRICS (see the numbers above). Politically, we are aligning with BRICS, Africa, and the Global South. Our political system is democratic, like India's and Brazil's. We share with the Global South a disdain for unilateralism, preferring a more multipolar world. Politically, South Africa is not going to switch from the Global South block to the G7 block, despite the economic ties.

These conflicting economic and political positions need to be carefully managed (as they were in the Mandela/Mbeki eras). But it is as if the Russia-Ukraine war has thrown South Africa off balance. To see how far off balance, compare our actions with those of Brazil and India.

### Comparing behaviour

Like Brazil and India, South Africa has called for a cessation of hostilities and for peace. Like them, we called for the United Nations Charter and international law to be upheld. Like them, South Africa did not impose sanctions against Russia. But then things diverged.

India actively pursued its national interest. It bought oil from Russia at a big discount ... and then paid for it in rupees! Russian Foreign Minister Sergey Lavrov went to Delhi and admitted that the rupee balances the Russians held in the Indian banks 'is a problem' for Russia, because it is receiving huge amounts of money that it cannot use. India is non-aligned and spoke out strongly against Western pressure, but very clearly put its own national interest first.

Brazil's President Lula da Silva condemned the US and the North Atlantic Treaty Organization (Nato), but also condemned Russia's invasion of Ukraine. Recently, his foreign policy adviser said: 'We cannot judge the situation by the last 1,5 years. This is a situation of decades. That is not the fault of Ukraine. Ukraine is a victim, a victim of the remnants of the cold war.'

That is a nuanced statement that avoids the binary trap our foreign policy seems to have fallen into – either the US/Nato or Russia. What about the third party to all this – the 43 million Ukrainians? Do they not count?

Both India and Brazil have also voted in favour of various UN resolutions condemning Russia's behaviour. South Africa's contrasting behaviour is well known.

It is as if the Department of International Relations and Cooperation is so ideologically committed to anti-unilateralism that it cannot see what is in South Africa's national interest, which was clearly spelt out by the minister of finance with his four 'transmission channels'.

### South Africa and the G7

This year, for the first time since the days of former President Thabo Mbeki, South Africa was not invited to the G7 summit in Japan. Former President Jacob Zuma attended all the G7 meetings, as did President Cyril Ramaphosa until last year. However, this year the invitation did not arrive. We cannot know for certain whether it was because of South Africa's Russia stance, but a golden opportunity to promote our goals was lost.

It is a setback not just for South Africa, but for Africa at large. This year's chair of the African Union, President Azali Assoumani of the Comoros, was invited to represent Africa. No doubt he is a fine man, but what is better for Africa: a leader who is there annually, building relations and developing trust, or a different rotating chairperson every year?

### United States overplaying its hand

We must still see what comes out of the whole Lady R saga, but the US's sanctioning of a flight school in Oudtshoorn on the grounds that it is training Chinese pilots and as such constitutes a danger to American security interests is simply nonsense. Such bossy and arrogant behaviour makes for an unsophisticated game.

One can just laugh it off, but it may well have political consequences. It is a time-honoured tactic to run election campaigns against a big, bad, often foreign common enemy.

In 1977, a year after the 1976 Soweto uprisings and with the country also in dire straits, John Vorster led the National Party to its biggest victory in 46 years in office by simply running against then-US President Jimmy Carter. In more recent times Viktor Orban, the Prime Minister of Hungary, ran against Hungarian-born businessman and philanthropist George Soros, also with huge success. There is a score of other examples. Nothing like a bit of 'them and us' to get the fervour going.

### So what?

- South Africa is clearly economically integrated into the West and co-dependent on it and BRICS in the critical areas that the finance minister has highlighted. That has to be balanced with our political stance of non-alignment and Global South priorities. We simply must get better at balancing the two.
- Our foreign policy seems to suffer from the same disengagement from economic realities from which Brzezinski, Kissinger et al suffered.
- Brazil and India – both democracies, both opposed to unilateralism, and both from the Global South – provide examples of much more nuanced and balanced responses to the Russia-Ukraine war than that of South Africa.
- Compared to those countries, South Africa is increasingly seen, not as a non-aligned country, but as aligned to Russia. That emphasises politics at the cost of economics.
- In the end all policy must serve the goal of fighting South Africa's triple curse: poverty, unemployment, and

inequality. That is what really counts.

PS: I wish to acknowledge the assistance of Pieter Roux in researching this note.