Falling BRICS Endanger Their Citizens' Health, Starting With South Africa's Jacob Zuma

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Contents

As he launched the African Regional Centre of the New Development Bank (NDB) in Johannesburg on Thursday [1], nearly 18 months behind schedule [2], South African President Jacob Zuma must have had mixed feelings. Strife-riven Brazil, Russia, India and China are more risky allies than Zuma reckoned when in 2010 he accepted Beijing's invitation to join the club [3].

"I was poisoned and almost died just because South Africa joined BRICS under my leadership," Zuma told rural supporters at a Phongolo African National Congress (ANC) Cadres' Forum in his native KwaZulu-Natal on Sunday [4]. He offered no proof for the startling claim, which dates to his illness during a mid-2014 US trip. But his wife Nompumelelo Ntuli-Zuma was initially blamed [5], then banished [6] from his notorious Nkandla palace by Zuma's security minister David Mahlobo in early 2015, and subsequently charged with attempted murder [7].

Is this new narrative plausible, given the celebratory role BRICS have played in world capitalism? Recall the bloc's initial 2001 rationale offered by Goldman Sachs chief economist Jim O'Neill [8]: "It seems quite clear that the current G7 needs to be upgraded and room made for the BRICs in order to allow more effective global policymaking." Last year, just after Goldman Sachs had closed its main BRIC investment fund due to poor performance [9], O'Neill asked, "How on earth can South Africa be economically in the same class?" However, he conceded, "Politically, it is very important that South Africa is part of BRICS. [10]"

Talk left

That's the *opposite* impression that Zuma is communicating about the views of Western multinational corporations and governments. According to Zuma's complaint to another ANC Cadres' Forum audience last November [11], Westerners "want to dismantle this BRICS. We have had seven votes of no confidence in South Africa. In Brazil, the president was removed."

Such paranoia is regularly expressed in ANC circuits, including during an SAfm radio debate last week with National Union of Mineworkers deputy president Joseph Montisetsi. He remarked quite justifiably on multinational corporate mining houses' exploitation of workers [12], their illicit financial flows (capital flight) and their lack of reinvestment. But then Montisetsi claimed these firms aim “to stop the South African community because of their choice of politics. These things are done everywhere, especially in BRICS countries – those countries that want an alternative kind of government which will have a kind of a bank which is contrary to World Bank and International Monetary Fund” (IMF).

In reality, the NDB has a strong relationship with the World Bank, cemented by last September’s Memo of Understanding [13]. The NDB’s 2017-21 Strategy document commits “to undertake joint projects and knowledge exchanges with the World Bank… to make the most of their decades of experience.” [14]

Likewise, the BRICS’ $100 billion Contingent Reserve Arrangement strengthens the IMF by insisting that once a borrower takes 30% of its quota (e.g. $3 billion for South Africa), then before it can access the next 70% it must first get an IMF structural adjustment programme. South Africa’s foreign debt exceeds $143 billion [15] – nearly 50% of GDP, a modern local record – and has left various commentators [16] either advocating or opposing IMF lending [17] and advice [18] in recent days.

_Walk right

But aren’t the BRICS making the IMF fairer? Four gained voting power increases in a December 2015 restructuring [19] – China (up 37%), Brazil (23%), India (11%) and Russia (8%) – but only as a result of eight African countries (including South Africa and Nigeria) losing between 21-41% of their IMF votes. When last December IMF managing director Christine Lagarde was convicted of criminal negligence for gifting a party supporter $430 million [20] when she was French Finance Minister, BRICS directors joined a unanimous ‘full confidence’ IMF endorsement [21].

In spite of occasional case-specific denials, especially about Greece (where Lagarde clashed with anti-austerity finance minister Yanis Varoufakis in 2015 [22]), the IMF maintains its murderous neoliberal orientation. Last month’s fib by Lagarde, that the IMF has ‘typically protected’ health and education spending in poor countries (from 1988-2014) was quickly rebutted by Thomas Stubbs of Cambridge and Alexander Kentikelenis of Oxford [23]: “the IMF’s assessment is methodologically flawed, and the organisation remains disconnected from the global political zeitgeist on universal social protection.” Their May 2017 study of 2.8 billion IMF victims in 67 countries published in the *Proceedings of the National Academy of Sciences* confirmed that IMF austerity regimes substantially “reduce the protective effect of parental education on child health, especially in rural areas.” [24]

A well-publicised 2016 confession [25] of how the IMF ‘oversold’ neoliberal medicine offered by three of its economists faced a quick internal backlash, according to Oxfam’s Max Lawson: “Any chance of the IMF sponsoring a sensible debate of the pros and cons of neoliberalism now seems extremely unlikely.” [26] In all of this, BRICS’ directors are Lagarde’s sub-imperialist allies.

_A neoliberal NDB

Part of the problem lies in the orientation of local personnel who occupy these posts. The NDB African Regional Centre’s new director general was not yet announced at the time of writing, but the job is a hot potato. It was the fig-leaf excuse Zuma gave in December 2015 for firing pro-business Finance Minister Nhlanhla Nene, who then spurned the supposed offer. In his final budget [27], Nene made cuts to the real value of already-tokenistic social grants to poor South Africans, while generously increasing the amount rich South Africans (mostly white) could take offshore (from $300 000 to $750 000) during yet another exchange control deregulation.

The South African chosen as NDB Vice President, Leslie Maasdorp, previously worked at Goldman Sachs [28], Barclays and Bank of America – as well as leading Pretoria's internal privatisation office. Until last week, the main local director serving the NDB was Tito Mboweni of Goldman Sachs, a former Reserve Bank governor best remembered for maintaining extremely high interest rates. But then, in his own words [29], he was "Fired, you might say!!"

Instead of a customary roll-over, Mboweni was replaced by the South African Treasury director general, Dondo Mogajane [30]. He had served as a World Bank board member during the institution's controversy over a corrupt $3.75 billion loan [31] – its largest ever – to South Africa for the world's largest new new coal-fired power plant, one hotly opposed by everyone from community and climate activists [32] to *Business Day* newspaper and the centre-right opposition party.

Today in South Africa, the NDB has had one customer: the corruption-riddled parastatal energy firm Eskom [33]. Funding was allocated for renewable energy transmission connections to privatised solar and wind projects [34]. Yet neither of the former Eskom leaders *who negotiated the loans* – Brian Molefe [35] and Matshela Koko [36] – *desired renewable energy, favouring nuclear instead*.

"Energy experts in South Africa believe the NDB is not happy with Eskom because it has earmarked a large chunk of the $180 million loan for projects not related to renewable energy," reported Peter Fabricius of the Institute for Security Studies recently [37]. "The highly controversial Molefe's indifference to renewable energy suggested to many that he had already signed up to Zuma's dubious nuclear project" – whose cost is estimated at $100 billion – leaving "great suspicion that Zuma has already promised the construction contract to Russian President Vladimir Putin."

The day before the opening of the Johannesburg branch, NDB chief executive KV Kamath revealed that his loan to Eskom was actually "in abeyance" at Pretoria's request [38]. However, he mandated his staff to generate another $1.5 billion in South African loans by 2019. (In its first year of operation, the NDB built a $1.4 billion loan portfolio from the other four countries.)

Can South Africa afford NDB credit? The real interest rate on the dollar-denominated loans depends upon currency devaluation: South Africa's crashed from R6.3/$ in 2011 to R13.4/$ today. As Kamath admitted to *Russia Today* last month [39], "The effective costs of borrowing in hard currencies, for any of us developing countries, appears low. It appears to be 2 to 2.5%. But when you add the exchange loss, the weakening of the currency over time, you end up paying 12, 13, 14%. So that's your true cost." (South Africa pays an 8.6% interest rate on international 10-year state bonds, one of the highest amongst 50 major countries tracked by *The Economist* [40], this week lower only than Venezuela, Turkey and Brazil.)

Kamath has committed to future lending in Chinese renminbi, Indian rupees, Brazilian reals, and Russian rubles, and while now including South African rands as a potential currency [41], the NDB's Eskom lending would have financed locally-sourced materials such as steel and cables (and local labour) for the electricity grid extension. Any such further NDB dollar loan offers make no sense.

Watchdogging from below

The characteristics of these loans are difficult to track because the NDB is a relatively opaque institution, critics in civil society complain. The Delhi-based People's Forum on BRICS considered the NDB's role less than five months ago, concluding it is 'no different' from the World Bank or Asian

Development Bank [42]: "it is promoting a business as usual model, rather than striking a dramatically new path for people-centered development."

According to the Forum, "Dam building is also being promoted under the [NDB's] renewable sector, though it is speciously claimed that what is supported is merely small dams. As is widely evident from the brutal experience of the people of Uttarkhand due to flash flooding of Bhaghirathi river in 2013, so-called 'run of the river' 'small hydro' projects can have devastating impacts equivalent to those of large dams.

In terms of process, "The prevailing policies to review the due-diligence of projects from their economic, ecological and social impacts viewpoints is weak… Nothing in the Bank's approach thus far provides any comfort of believing that the NDB is out to support the needs of pastoral and agrarian communities, of working classes, and the poor… NDB is aggressively promoting privatisation of public services, which has been globally experienced as the most effective way to attack the poor and the working classes."

As the Peoples Forum also reminded, "democracy is under threat in BRICS countries and beyond; state repression is rising in every BRICS nation; and ecological destruction is widespread in every BRICS country. In the context of a world economy teetering on the brink of a financial meltdown, and new generation of Bilateral Trade and Investment Treaties which are designed to adversely impacts on lives and livelihoods of ordinary peoples across the BRICS countries, the Forum felt that there absolutely does not seem to be the necessary deep concern in the NDB to revise its strategies… Promoting finance for such a divisive and inhuman world order is a crime against humanity and nature."

Meanwhile in subsequent months, most of the BRICS countries have witnessed sustained protests, many against corruption, environmental destruction and labour abuse. For example, last week during a hunger strike against further mega-dam construction on the Narmada River, Peoples Forum on BRICS co-founder Medha Patkar was arrested on a framed kidnapping charge and denied bail [43].

BRICS breaking?

Early next month, the BRICS heads of state will gather in Xiamen, China for their annual summit. Several important developments since the 2016 summit in Goa [44] – when Narendra Modi notoriously failed to have China and Russia declare Pakistan a "terrorist state" – leave the BRICS more fragile than ever:

* India-China border disputes – potentially war – are unfolding in Bhutan and Pakistani-held Kashmir, leading Modi to boycott Xi's huge Belt & Road summit held in May;

* chaos reigns in BRICS-US relations, especially given the creepy warmth between Modi and US President Donald Trump, Putin's alleged interference in the last US election (mimicking what Washington has done countless times), and Trump's erratic 'diplomacy' with Xi Jinping based on trying to halt North Korean nuclear weapons one day and preparing to impose trade restrictions the next;

* at a time of rising US protectionism, Xi has become the most enthusiastic promoter of world capitalism, to the applause of neoliberals (like London School of Economics researcher Andrew Hammond) who appreciate how "China has championed the benefits of market liberalization" – but at a time South African steel production is collapsing due mainly to ultra-cheap Chinese imports, in

spite of last month's 'too little too late' 12% tariff protection from Pretoria (and likewise South Africa's chicken industry remains in crisis due partly to Brazilian dumping), while India last month also imposed anti-dumping tariffs against Chinese and South African stainless steel;

* Brazil's ongoing corruption scandal features repeated revelations of Michel Temer's misdeeds; and

* South Africa's chaotic leadership (Zuma barely survived a parliamentary 'No Confidence' vote last week), recent series junk credit ratings and the ongoing recession and worsening unemployment crisis together leave its influence much reduced.

After the bumpy ride across the broken BRICS in 2017, South Africa will host the bloc in 2018 – unless perhaps Zuma decides health is more important than wealth.

Patrick Bond

P.S.

* AUGUST 18, 2017:
https://www.counterpunch.org/2017/08/18/falling-brics-endanger-their-citizens-health-starting-with-south-africas-jacob-zuma/

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Footnotes

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