



Impact of the changing global balance of forces on SA's economy, poverty and unemployment

Address at NEDLAC Summit, 9 September 2022

by **Yacoob Abba Omar**, Director Operations at Mapungubwe Institute (MISTRA)

All protocols observed.

One of the advantages of working with the Indlulamithi Scenarios Project is that we are constantly focused on understanding which scenarios are unfolding. Colleagues and comrades may recall that research for the current scenarios began in 2017, with the actual scenarios being launched in June 2018. Recently we carried out our own assessment and reached the conclusion that not only has SA changed since 2018, but the world is undergoing a dramatic transformation as well.

The three key drivers we had identified, or what we call the three 'Big Cs' impacting the world, are: China-US relations; Climate Change and Covid's impact. These forces are seen as impacting on foundational developments such as the state of democracy in the world, the Fourth Industrial Revolution, inequality and the future of work. The effect of global tensions can be seen in the Russian invasion of Ukraine, the steep increase in food and fuel prices, and generally the spread of inflation around the world. In the short space of time I have available I will set out ways in which we can look at these various forces, and development, and how they integrally impact our economy and on our responses to poverty and unemployment in South Africa.

Two US academics, Hal Brands and Michael Beckley, have put down the exact date on which the next major global war will begin. In *Danger Zone: The Coming Conflict with China*: they have diarised it for January 18, 2025, shortly after the next 2024 US general elections and before the Presidential inauguration, when the Republicans and Democrats are still fighting over who has won the elections. War begins with China attacking Taiwan, as well as America's air bases in Okinawa and Guam and the Pentagon's sole aircraft carrier in the region.

We are so constantly fed Western views through our consumption of the BBC, CNN, FT, or even the Business Day 😊 that we have to consciously remind ourselves of what is the view from China. For example, Yan Xuetong, dean of the school of international relations at Tsinghua University in Beijing, while declaring that "the post-Cold War interregnum of US hegemony is over," admitted that, "Beijing has no clear plan for filling (the) leadership vacuum and shaping new international norms from the ground up". Rather "China's ambitions for the coming years are much narrower" and it would 'rather have a multipolar world in which other challenges—and challengers—force the United States to cooperate with China" (Xuetong forthcoming).

If we to simply remind ourselves of President Xi's key initiatives, it would give us an indication of the strength of this view. Under the rubric of his "new development concept", which is meant to address "great changes unseen in a century", China has identified four key approaches to tackle inequality, monopolies and debt, to ensure that China dominates new technologies and is fortified against Western sanctions. These include the Regional Comprehensive Economic Partnership which included US allies such as Japan and Australia, the "Made in China 2025" campaign designed to help China

become a largely independent scientific and technological power by 2025, the Belt and Road Initiative (BRI) which has extended to 43 countries in Africa, 34 in Europe & Central Asia (including 18 countries of the European Union and 24 countries in East Asia & Pacific). The fourth, unveiled in April 2022 by President Xi at the Boao Forum, is the Global Development Initiative which is complemented by the Global Security Initiative. The latter was clearly a response to the war in Ukraine.

How has the West responded? In 2021 the Biden administration proposed Build Back Better World (b3w) as an effort to counter China to finance infrastructure in poor countries. The EU has launched Global Gateway, a similar plan, with Ursula von der Leyen, president of the European Commission, saying that, unlike China, the EU wants to create “links and not dependencies”.

As *The Economist* has pointed, these efforts have flaws. ‘The b3w is little more than a new label for inter-agency co-operation in Washington. Global Gateway is vanishingly slight in detail’.

And what is the US perspective on China? For example, Elizabeth Economy, author of *The World According to China*, argues that Beijing is aiming for a “radically transformed international order” in which the US is in essence pushed out of the Pacific and becomes merely an Atlantic power. Conservative analyst Niall Ferguson has pointed out that the projected decline of American defence spending as a share of GDP, from 3.4% in 2020 to 2.5% in 2031, should be a matter of concern.

The rapid rate at which China has caught up with US economically is also a cause for consternation. On the basis of purchasing-power parity, which allows for the lower prices of many Chinese domestic goods, the GDP of China caught up with that of America in 2014. On a current-dollar basis, the American economy is still bigger, but the gap is projected to narrow. This year China’s current-dollar GDP will be around 75% of America’s. By 2026 it will be 89%.

There are naturally many different US views: “far right versus neo-liberals”, “nationalists versus globalists”, “Populism vs globalisation.”

Trump and his MAGA agenda could be put firmly in the right wing/nationalist camp. Hungarian strongman, Victor Orban, has been their model. Jacob Heilbrunn, editor of *The National Interest*, points out that Viktor Orbán ‘is not a heavy-handed tyrant; he has not led a military coup or appointed himself maximum leader. Instead, he follows the path of “illiberal democracy.” Trump demonstrated in the United States what Orbán proved in Hungary: The public will accept authoritarianism, provided it is of the creeping variety.

On the other hand, the advocates for the liberal international order and the globalists point out that the trends of interdependence are irreversible and the US must adapt to the new geoeconomic age of open borders and free trade rather than erect new walls.

Let us turn now to Russia. Russia’s invasion of Ukraine has brought into sharp focus debates on what constitutes that country’s agenda. Fyodor Lukyanov, a Russian foreign-policy thinker close to President Putin, believes that unipolarity after the collapse of the Soviet Union “gave the United States the ability and possibility to do whatever it saw fit on the world stage”, intervening in conflicts all over the world.

Dmitri Trenin of the Carnegie Center in Moscow argues that, “For the country’s leaders, Russia is nothing if it is not a great power.” And the national identity Putin has helped promulgate— illiberal, imperial, resentful of the West—has played an essential role in his brutal invasion of Ukraine.

Africa, especially SA’s stance on Russia’s invasion, seems to have mystified many, especially Western, observers. Nanjala Nyabola, a Kenyan writer and political analyst, points out that ‘there are clear

reasons for African countries' reluctance to embrace the Western narrative about Ukraine. For one when African countries have come together around a common position in the past, it has often been after years of deliberation'. Add to that the legacy of support which Russia has provided in the struggle against colonialism and apartheid: 'a legacy that has allowed contemporary Russia, as a successor state to the Soviet Union, to portray itself as on the right side of African history'.

Many of the governments currently pivoting to Russia—including Mali, Ethiopia, and Uganda —owe their political survival to Russian support, including arms supplies: Russia is the largest weapons exporter to Africa, accounting for 44 percent of weapons purchases between 2017 and 2021 on the continent, according to SIPRI (the Stockholm International Peace Research Institute).

Let us turn to Africa, where Chinese firms account for an estimated one-eighth of the continent's industrial output. It has been criticised for engaging in 'debt-trap diplomacy'. In 2020 Chinese loans accounted for 17% of the stock of public debt in sub-Saharan Africa, says the China Africa Research Initiative (CARI) at Johns Hopkins University in Washington, DC. That was more than all other bilateral official creditors combined, but less than the share held by the World Bank (19%) or commercial bondholders (30%). But their study found the Chinese no more nor less bullish with their loans than other lenders.

Most Africans think highly of China. A survey of 34 African countries last year by Afrobarometer found that 63% of respondents felt China had a "very" or "somewhat" positive influence—more than the 60% who said the same of America. Polls in seven African countries for The Economist by Premise, conducted in April 2022, found a similar result.

In Afrobarometer polls, far more countries see America rather than China as their preferred future model (23 against five). In The Economist survey found only two countries (Ethiopia and Tanzania) saw China more favourably than America. Put crudely: Africans appreciate China's economic role but prefer democracy and freedom to authoritarianism.

America and members of the EU do make valuable contributions in Africa, but less visibly. Their armed forces help African governments fight extremist groups. They invest massively to improve public health, providing Western-made covid vaccines that work better than Chinese ones (and are free) – even though it took a lot of pressure and campaigning, notably led by President Ramaphosa. In April 2022 the administration gave more than \$200m in aid to the Horn of Africa, in response to a food crisis aggravated by Russia's war in Ukraine.

Having sketched these major tectonic shifts occurring as a result of big power rivalry I want to turn our attention to three key themes impacting on our economy, poverty and unemployment. These are the issues around energy consumption and climate change; developments in technology

One of the certainties for much of the previous century was US dependence on importing oil. The United States' net energy imports peaked in 2005 at about 30% of total consumption. But thanks to the development of fracking, which increased gas- and oil-extraction capacity, America became a net energy exporter by 2019. Depending on prevailing prices, it still imports some crude oil, but the share from the OPEC cartel (dominated by Arab countries) has fallen from 85% to 14%. America has all but freed itself from the need to secure and protect supplies from Middle Eastern producers. With the US pivoting away from the Middle East, Russia, Turkey and Iran have stepped in as power brokers in the ME region.

Broadly two conceptual approaches have emerged around the question of Climate change and the just transition to low carbon future. On one hand you have the 'degrowth' view which argues that the

promise of green growth is at best a distraction. As Tim Jackson puts it in *Post Growth: Life after Capitalism*, 'Growth means more throughput...more throughput means more impact. More impact means less planet. Endless growth – green or not – can only end up leading to no growth at all. There is no growth on a dead planet'.

The less radical view is that of the 'greengrowthers', who argue that the future lies in innovation and technology, market-based climate policy (like carbon taxes and tradeable permit schemes), 'innovation economies' and 'net-zero' pledges. It refers to corporate and government commitments to large-scale projects that would supposedly allow us to continue business basically as usual while offsetting emissions with carbon capture and storage, tree-planting, and other carbon-sequestration programmes.

The latter framework has been guiding SA policy thinkers. The World Bank's Country Climate and Development Report (CCDR), released on 30 August 2022 points out that South Africa needs to better balance its development goals by pursuing three interconnected transitions of reinforcing resilience, decarbonizing growth, and ensuring a just transition. Total incremental investment for the net-zero pathway will not be cheap, amounting to R4.2trillion in NPV (net present value) between 2022 and 2050. Or an average of 2.1% of GDP during this period. This is high by most standards and is largely due to the magnitude of the shift required to move from our economy's dependence on thermal power to renewable sources of energy. About 42% of these costs are for the power sector (wind, solar, batteries, gas), 18% for the transport sector, and 21% for others (including green H2).

Making a 'just' transition toward a low carbon economy is going to affect the poorest disproportionately because of the expected rise in electricity prices (over and above the current upwards trend). It will require compensation mechanisms such as lower tariffs or targeted subsidies. The CCDR report estimates 1.3 million new jobs through renewable energy. However, it is estimated that about 200,000 direct jobs and 800,000 indirect jobs will be eliminated in coal mining, petroleum and other chemical industries.

There is not going to be any magic wand transporting us to a low carbon future. Measures will be needed to help prepare workers for greening of the industries they work in or even, different industries. Active labour market programs are required to help transition vulnerable workers including involvement of DEL labour centers, EPWP, CWP, support for self-employment as well as income support such as severance pay, early retirement, UIF, SRD-R350 linked to ALMPs, universal health care.

While we appreciate the impact of the just transition on poverty and unemployment, let us also look at the impact of technology. Here again there are a few competing perspectives. The right wing view was captured in *The Sovereign Individual* by James Dale Davidson and William Rees-Mogg (father of Jacob Rees Mogg, close pal of Boris Johnson), first published in 1997, which spoke of the demise of the nation-state and the emergence of low or no tax libertarian communities. This perspective argues that blockchain and encryption technology – including cryptocurrencies such as Bitcoin, along with online payment systems – has the potential to liberate citizens from the hold of the state. This kind of rhetoric already smacks of the kind of digital apartheid that technology could be leading us to globally.

On the other hand, for the majority of us, the very nature of work has changed right before our eyes. The WEF 2020 Future of Jobs Survey showed that a large number of firms were going to adopt by 2025 some or several aspects of the following technologies: biotechnology, cloud computing, encryption and cyber security, Artificial Intelligence (including ML and NLP), industrial automation and drones, distributed ledger technology (like blockchain), 3D and 4D printing. I think we can all agree that much

of this has becoming mainstream by 2023, largely due to the impact Covid 19 has had on the way we work, live, play and socialise.

In the same WEF survey, South African firms indicated they were going to shift towards greater automation of work processes (82%), and while a large number saw themselves retaining employees with intensive training schemes in place, a significant number were going to declare them redundant and either outsource for the required skills or bring in temporary consultants.

To add to these shifts, we need to acknowledge the rising tendency towards 'microwork' which refers to any small task carried out on the virtual assembly line that an algorithm can't reliably perform. Currently twenty million people around the world earn a living performing tasks on 'microwork' sites such as Amazon Mechanical Turk, Appen, Scale and Clickworker. While 'tech work' still connotes well-paid Silicon Valley computer engineers and entrepreneurs, the low-wage workers who keep much of the internet going can be found in ghettos and refugee camps.

What does this all mean for SA?

Our starting point, given the complex world we live in, is to appreciate what is in SA's interest. Defining the national interest is usually shrouded in mystique. Hence it was a brave move for Minister Pandor and DIRCO to release for public comment SA's framework for defining our national interest. It argues that South Africa has five main national interests: the maintenance of its political sovereignty and its constitutional order; the physical safety of its citizens; the well-being of its citizens; the promotion of economic prosperity; and the promotion of a better Africa and a better world.

SA will be pursuing its interests in a post-Cold War world and post that rare period of unipolarity and US hegemony. As Francis Fukuyama puts it, the world in the 2020s is now 'reverting to a more normal state of multipolarity, with China, Russia, India, Europe and other centres gaining power relative to America'

Daulet Singh of India's Institute for Chinese Studies, description of India's approach, may be apt for SA: 'India's multi-directional foreign policies should be seen as a reflection of the diffusion of global power and the fact that different great powers' interests, visions, and goals coincide with India's in different domains of power or issues, with each issue significant for India's domestic transformation or geopolitical security'. India is currently aligned with Russia and China through BRICS but it is also aligned with the United States, Australia, and Japan through the Quadrilateral Security Dialogue (more commonly known as the Quad).

Perhaps, the most optimistic scenario is that, in the context of a multipolar world, multilateral institutions will be strengthened and that the key powers will continue playing by the established rules of the game. This does not mean an end to the kind of limited conflict or intense competition we see amongst these rival powers. These could be strategic attempts to alter the balance of power in the various regions by the individual powers or it could portend the rise of a new global power.

Addressing the challenges of growing our economy, and poverty, unemployment and inequality, there is no doubt that there are going to be huge challenges to be faced. For example his recent book *In A Brief History of Equality* Picketty lays out a programme of democratic socialist reforms – to taxation, property rights, corporate governance, international regulation and much else – that would invert recent trends. But even at his most hopeful, he is forced to concede that concentrations of wealth (if not of income) are remarkably resilient in the face of political efforts to challenge them.

Given the various technological challenges faced globally and the responses required to address climate change, our strategic response has to place at its core the upskilling of all out citizens – young and old – while managing the just transition to a greener future.