

Daniel Mminele: South Africa and the G-20 – challenges and opportunities

Address by Mr Daniel Mminele, Deputy Governor of the South African Reserve Bank, at the G-20 Study Group, “South Africa and the G-20 – challenges and opportunities”, Southern Sun Pretoria, 31 October 2012.

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1. Introduction

Good afternoon ladies and gentlemen.

Thank you to the South African Institute of International Affairs and the Centre for Human Rights at the University of Pretoria for the kind invitation to participate in this study group meeting. I have been asked to introduce today’s discussion by sharing some thoughts with you on the G-20, insofar as South Africa, including the central bank, has thus far experienced and shaped our relationship with this global forum. I have no doubt that there is a lot to learn from each other on this topic, and I look forward to the discussion later and to the contributions from the discussants sitting on the panel with me.

2. G-20 and its participation structures

As much as you may all be quite familiar with the G-20, I thought it best to start with a brief review of the forum, so as to better place the discussion in context. Established in 1999, comprising 19 countries and the European Union, the G20 was initially a forum of Finance Ministers and Central Bank Governors. The group was created in response to the Asian financial crisis of the late 1990s, and as reflected in its founding mandate, its role is “...to prevent another regional or global financial crisis” through the involvement of systemically relevant advanced and emerging-market economies in discussions relating to the global economy and global economic governance.

Since inception, G-20 Finance Ministers and Central Bank Governors have met annually, however, in the wake of the global financial crisis in 2008 it was recognised that given the enormity of the crisis, coordination at the highest level of member countries was required, and this resulted in the forum starting to meet at Heads of State/Heads of Government level, with the first so-called Leaders’ Summit convened in Washington, D.C. by US President George Bush. As you are aware, six more such summits followed, with the most recent taking place in June this year in Los Cabos. At the 2009 Pittsburgh Summit, G-20 Leaders declared the G-20 the premier forum for international economic co-operation, effectively replacing the G-7 which comprised only the advanced economies. This move was in recognition of the critical role emerging-market economies could play in driving global growth and their potential to provide resources for global financial stability and contribute to in crisis prevention and resolution initiatives.

The G-20 has no permanent secretariat of its own, and the G-20 chair rotates among members, selected from a different regional grouping of countries each year. The incumbent chair establishes a temporary secretariat for the duration of its term, co-ordinates the group’s work and hosts its meetings.

The work of the G-20 is organised in two main streams or tracks: the so-called “Sherpa track”, which prepares for the Leaders’ Summits, and the “Finance track”, which prepares for Finance Ministers and Central Bank Governors’ meetings. The Leaders’ Summits are attended by the Heads of State, Finance Ministers and Foreign Affairs Ministers. Central Bank Governors do not generally participate in the Leaders’ Summits, but in some instances do form part of the government delegation. G-20 Finance Ministers and Central Bank Governors meetings, as well as Leaders’ Summits provide political guidance and direction on

the key focus areas of the G20 work programme. Work of a technical nature is normally undertaken by G-20 working groups and study groups, as well as key international organisations and standard setting bodies, providing regular interim reports to Finance Ministers and Central Bank Governors in the build-up to the Leaders' Summits. The dialogue, especially under the Mexican Presidency, has been broadened to include a multitude of consultative fora, such as the so-called B20 (global business leaders from member countries), G20YES (Young Entrepreneurs Summit), Think20 (academia and think tanks), Y20 (Youth Forum), L20 (trade unions from member countries), as well as meetings of G-20 Agricultural and Trade Ministers. Essentially we are now looking at the G-20 being a forum which addresses wide range of economic, financial, social and cultural issues.

3. The agenda of the G-20

The Presidency of the G-20 in a particular year develops its agenda in consultation with the other members of the forum. The G-20 Troika, consisting of the past, current and next presidency of the G-20, plays a major role in this regard. The Agenda of the G-20 has evolved over the years, although the focus has remained broadly unchanged since the 2008 global financial and economic crisis. Much of the work in the G-20 has since revolved around three key areas, namely:

- a. Policy coordination between members in an effort to achieve global economic stability and sustainable growth;
- b. Promoting global financial regulation to reduce risks and prevent future crises; and
- c. Reform of the international financial architecture/international monetary system.

Other areas of focus are development issues, commodities, and climate finance.

A number of working groups have been formed since 2008, and South Africa has been nominated to co-chair some of these working groups, such as the Reform of the IMF, Development, Financial Inclusion and the Climate Finance Study Groups. South Africa also participates in all the working groups, contributing to the discussions and putting forward our country positions and views and to ensure that our positions are captured in meetings of the Finance Ministers and Central Bank Governors, and at Leaders' Summits. Although G-20 documents have no legal status, they serve as binding statements for members, and are a basis for further work.

I thought I would briefly give you a flavour of how the work of the G-20 has evolved over the years, although much more detail is available on the G-20 website. Leaders' Summits are the key agenda setting fora, and I will touch on some of the key milestones in this regard.

The first G-20 Summit in 2008, held in Washington D.C. during the very early stages of the global financial crisis, was primarily focused on G-20 co-operation, strengthening economic growth, dealing with the financial and economic crisis, and laying the foundation for stricter financial regulation. There was also recognition of the need to reform the IMF, World Bank and other Multilateral Development Banks (MDB) and the need to resist trade protectionism and work towards the conclusion of the Doha Round. During the London Summit in April 2009, the focus turned towards co-ordinated fiscal and monetary stimulus measures to avert the threat of global depression. Leaders also agreed on additional resources for the IMF and MDBs to assist countries weather the financial crisis, and resources of up to US\$1 trillion were provided to the IMF. The FSB was established as a successor to the Financial Stability Forum (FSF) at the Bank for International Settlements (BIS), with key emerging-market economies represented on the Board, which was a departure from the FSF which represented only advanced economies. In September that same year, at the Pittsburgh Summit, Leaders agreed on the implementation of a Framework for Strong, Sustainable and Balanced Growth.

By the June 2010 Toronto Summit, fears were escalating over the fiscal health of various advanced economies, and advanced deficit economies agreed to at least halve fiscal deficits by 2013, and stabilise or reduce sovereign debt ratios by 2016. These commitments included on-going structural reform across all G-20 members to rebalance and strengthen global growth. An agreement to conclude work in the Basel Committee on Banking Supervision on a new global regime for bank capital and liquidity was also reached. In November 2010, Leaders adopted the Seoul Action Plan which outlined the actions that members committed themselves to implementing to kick-start global growth, and the Seoul Development Consensus for Shared Growth which relates to commitments by members to support the global development agenda, including contributing towards achieving the Millennium Developments Goals.

At the June 2012 Los Cabos Summit, Leaders pledged over US\$450 billion in financial resources to boost the IMF firewall. The European sovereign debt and banking crisis has received much attention, with the spillover effects to other member countries in a globally interconnected world taking centre stage, and the need for policy makers in Europe to take decisive and credible action featuring strongly. Much of this focus on short-term crisis management measures have unfortunately come at the expense of progress on other important medium-term objectives of the G-20. As we near the end of the Mexican Presidency, the next key decision on the IMF quota formula needs to be taken, which I will come back to later. Under the Mexican presidency in 2012, an impact study of Basel III on emerging-market economies was conducted, and financial access, innovative sources of financing and addressing corruption have also been adopted as Agenda items.

In 2013, Russia takes over the Presidency of the G-20. We await further details on the Agenda, which we hope will be more focused and concentrate on the three main issues of global growth, regulation and the international monetary system.

4. Opportunities and challenges of South Africa's participation in the G-20

South Africa's membership of the G-20 provides enormous opportunities. As a small and open economy, South Africa has an interest in seeing the G-20 Agenda succeed because of our level of interconnectedness within the global economy. As the only African country represented in the G-20, this membership provides South Africa with the space to influence key international policies that could have an impact on our own economy, the region and the continent as a whole. As the sole African representative at the table, South Africa also endeavours to highlight regional and continental issues, albeit without any formal mandate. Our network of contacts from our interactions in various G-20 formations provides great opportunities to leverage these to advance various other objectives and to enhance South Africa's international profile and reputation.

The key players to ensure meaningful participation in deliberations at G-20 meetings with the view to influence outcomes in line with South Africa's and Africa's development and growth priorities are the Presidency, the Department of International Relations and Cooperation (Dirco), the South African National Treasury, the South African Reserve Bank (the Bank), with the support of various other governmental departments and the Cabinet. The Presidency, Dirco and the National Treasury normally play the leading role on behalf of South Africa in the forum, while the Bank plays a meaningful role in its areas of expertise, particularly on financial and regulatory matters.

Domestically, South Africa consults with a number of stake holders, including NEPAD, civil society including NGOs, and the academia. Regionally, the Group of Ten African Countries (the C10) was formed in 2009 in order to solicit views and opinions from countries across the continent on how the G-20 may address their concerns. It has to be admitted, however, that the consultation process could be more effective, and that more could be done to strengthen these initiatives and to ensure that they work as intended. Hence, a key challenge for South

Africa is to identify key priority areas where it could influence the G-20 policy and agenda for the benefit of the country and region.

Another challenge is to ensure that as South Africa's role grows internationally, and we are more and more recognised as an important voice at the table, we are able to commit sufficient resources to be able to respond appropriately. In order to address this challenge, the South African Reserve Bank is currently in the process of setting up a dedicated international economic relations and policy department.

South Africa chaired the G-20 in 2007, and focused predominantly on IMF quota and voice reform. As a result of South Africa's efforts, together with other members of the G-20, the 2008 quota and voice reforms of the IMF were adopted. Significant deadlocks were overcome during deliberations among the G-20 members, most importantly agreeing to include Purchasing Power Parity as a component of GDP in the quota formula, which paved the way for several emerging-market countries to gain from the future quota reforms. Hence, South Africa, alongside Australia, was asked in 2010 to co-chair the G-20 Working Group on IMF reform. In this regard, South Africa and Australia played a key role in guiding the IMF's governance reform programmes. A key challenge for South Africa, however, will be to ensure that while it supports the reform agenda of the IMF, it does not end up, together with Africa, being net losers in this reform process. This remains a major obstacle for the country in this year's G-20 discussions, as we near the conclusion of the Fourteenth Review of the quota formula. The issue of a third chair for Sub-Saharan Africa in the IMF executive board is a clear example of the difficulty the Continent faces in IMF governance deliberations.

As a member of the BRICS, South Africa also has the opportunity to align some of its positions with those of its BRIC partners, while gaining support from BRIC for its positions within the G-20. However, this is easier said than done, because even among the BRICS, positions are not always aligned. Whilst on the subject of alignment, although the G-20 is essentially a grouping of the G-7 plus systemically important emerging-market economies and Australia, there is no natural alignment of groups within the forum. It has become necessary to move away from the traditional views of alliances that address issues along the lines of North/South or advanced versus emerging/developing countries, etc. to alliances that are outcomes based and follow specific interests as regards various agenda items. Depending on the issue at hand, South Africa aligns itself with different groups to ensure that decisions on key issues reflect our country's best interest. With regard to quota and voice reform in the IMF, for example, South Africa is mostly aligned with emerging-market economies. However, with regard to the financial transactions tax that was mooted by the Europeans, South Africa opposed this proposal and was supported by a few other advanced economies. South Africa is aligned with advanced economies on the issue of climate finance, while other developing countries generally feel that this issue is best addressed at the United Nations. The challenge for South Africa is to formulate its positions carefully, taking into consideration country circumstances, and partner with countries, be it emerging-market or advanced countries, to push forward these positions.

5. Prospects for South Africa within the G20

South Africa has the potential to contribute significantly to the *Growth and Development Agenda of the G-20*, with a particular focus on low-income countries and sub-Saharan Africa. In 2010 the G-20 Leaders declared in Toronto that "Narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all."¹

¹ Toronto Declaration, June 26–27, 2010.

At the Toronto Summit, the G-20 Leaders confirmed the inclusion of development as a key agenda topic at the Seoul Summit and agreed to establish a Working Group. In 2010 South Africa, alongside Korea, was nominated to co-chair the G-20's Working Group on Development, which sought to address issues of significant importance to the African continent, in particular infrastructure development. In 2011, South Africa was included as the co-chair of this group together with Korea and France. While development issues are not prominent on the G-20's Agenda, South Africa together with Korea, provided the necessary leadership when it was decided to include development issues on the G-20's Agenda.

South Africa could use this process to position itself strongly in the G-20 discussions on growth and development, to focus on the underdevelopment of various regions in the global economy, including sub-Saharan Africa, and promote these discussions on the global policy agenda.

As part of the G-20's focus on *financial inclusion*, South Africa and Germany co-chaired the SME finance sub-group, with the focus to crowd-in the private sector by incentivising it to develop innovative ways of financing SMEs through a G-20 SME Challenge launched in Toronto. In 2012, South Africa remained actively involved in this area together with the United States. While South Africa, together with other emerging-market countries, acknowledges that it still has a long way towards improving financial inclusion in the country, the fact that it is encouraged to play a leading role in this endeavour within the G-20 could help it to expedite financial inclusion policies in the country.

South Africa has a strong financial sector, and has used this to its advantage to contribute to G20 discussions to highlight its experience. In this regard, South Africa together with other emerging-market countries put in a concerted effort highlighting the potential unintended consequences of some of the Basel III proposals, without detracting from its firm commitment to implementing regulatory reform. Working together with peers within the G-20, a review was done of potential unintended consequences of financial regulations on the economies of emerging-market countries, and a number of changes were proposed to address some of these unintended consequences. South Africa will continue to utilise its experience in the area of financial regulation and supervision to influence the outcomes of financial reform initiatives.

South Africa is actively promoting reform measures that enhance the credibility of its financial system, while promoting the principles of fairness and global accountability and harmonisation of financial regulations across jurisdictions, as well as to ensure that commitments agreed upon at a global level are implemented locally as appropriate. Its efforts to implement Basel III regulations including twin peaks regulatory reform measures underline these endeavours.

South Africa's participation in the G-20 helps leverage its voice and effectiveness in other international standard-setting bodies such as the Financial Stability Board, the Basel Committee on Bank Supervision; the Committee of Insurance, Securities and Non-banking Financial Authorities, the Financial Action Task Force and the International Association of Deposit Insurers.

We have also been supportive of the efforts to strengthen the financial position of the IMF, as reflected by our inclusion in the IMF's New Arrangements to Borrow Initiative (NAB) and US\$2 billion loan made available towards strengthening the IMF firewall. However, the IMF is a quota based institution and there is a general recognition that the current IMF quota formula, while an improvement on previous formulas, remains flawed in that it does not fully recognise the changing economic weight of emerging market and developing countries. I have already touched on this issue earlier, but would like to reiterate that any shift in quota shares that may benefit specific emerging and developing countries should not come at the expense of other emerging-market and developing economies, and it is important that South Africa ensures the protection of its quota share.

Finally, South Africa and France have been appointed to co-chair the study group on climate finance. G-20 countries are divided on whether this issue should be considered in the G-20 forum, or be addressed within the United Nations under the so-called United Nations Framework Convention on Climate Change (UNFCCC). No matter what the final decision will be, South Africa is in this instance considered to be a credible broker to hear the views of the opposing parties, which enhances the stature of the country in the forum.

6. Challenges for the G-20 as a forum

The G-20 as a forum has the potential to contribute significantly to global dialogue and policy debate. Of late, it seems that the forum has moved beyond its teething problems and idealism as a forum for co-operation and co-ordination, towards being viewed as an institution where process issues are becoming more prominent and actions more difficult to agree on or to implement.

At the start of the global financial crisis, there was significant co-operation and co-ordination within the G-20, however, many G-20 countries have since become increasingly inwardly focussed and critical of the policies of other members of the forum. This was particularly so in the aftermath of the implementation of quantitative easing, which had repercussions for capital inflows and currency appreciation in emerging-market countries. Advanced countries have countered that some emerging-market countries were accumulating reserves beyond what was needed for economic reasons, which has contributed to weaker exchange rates than was dictated by economic fundamentals.

Another challenge for the G-20 relates to its increasing number of meetings alongside an ever growing agenda, which has led some members to question the validity of so many meetings and the ability to focus with such a wide ranging agenda.

While the G-20 as a group makes up about 80 per cent of global trade and global GDP, it consists of only 19 countries, which effectively excludes more than 160 countries. Only one African country is represented in the forum. The Nordic countries in particular are very critical of the group, given that the regulatory policies adopted by the G-20 through the FSB and the Basel Committee affect them directly. Hence, the G-20 needs to do significantly more outreach to obtain the views of countries that are not in the forum, but that are affected by G-20 policies.

Recently, some G-20 countries asked whether a permanent G-20 Secretariat for the group should be formed. This is, however, unlikely to be easily accepted as countries tend to use the opportunity to host the G-20 forum to showcase their countries.

7. Conclusion

While the expansion of the agenda and the role of the G-20 in the global economy are seen as an opportunity by some and a threat by others, South Africa will continue to focus on key issues of particular concern to both the country and the region.

The G-20 has been relatively successful in promoting regulatory reform, and South Africa was a keen participant in this process, recognising the importance in providing stability to the global financial system, but also understanding the domestic challenges posed as a result. Furthermore, South Africa continues to argue at the G-20 and other forums that the cost of the new regulatory framework to African countries should be recognised and that these countries should be supported in strengthening the financial systems.

The G-20 up to now has been less successful in implementing the Action Plans that it has adopted to foster strong, sustainable and balanced growth. The co-operation that was present at the start of the crisis has faded somewhat and home bias and political considerations play a key role in preventing countries from adopting the needed reforms. Negative feedback loops between sovereign debt, banking sector problems and slow growth

have also played a role in delaying the implementation of medium term plans, including structural reform. This has increased the risk of credibility loss for the G20, especially given that previously the G20 was able to demonstrate political will and decisive action.

The G-20 played a pivotal role in advancing the reform agendas of the international financial institutions, particularly that of the IMF, while also helping to strengthen the IMF financial position.

Finally, there have been concerns expressed about the growing G-20 agenda, particularly as it relates to issues that are considered to be the domain of organisations such as the United Nations (particularly on climate change issues). South Africa, while recognising this difficulty, supports an agenda that also focuses on development issues and climate finance is considered in this light.

Even when one accepts that there may be legitimacy and credibility problems from time to time, the G20 has evolved into a very powerful forum for international cooperation and coordination, and if South Africa can carefully define its priorities, and continues to leverage its seat at the table, the country only stands to benefit from its participation in the G20.

Thank you.

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