Gill Marcus: Globalisation can be a force for good

Address by Ms Gill Marcus, Governor of the South African Reserve Bank, at the Dinner in Honour of Ambassadors and High Commissioners to the Republic of South Africa, Pretoria, 1 October 2013.

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Your Exellencies, Ambassadors, High Commissioners, Counsels and Diplomats, good evening.

Thank you for accepting our invitation to join the South African Reserve Bank this evening. If there was ever any doubt that we live in a highly integrated world, financial markets have a tendency to remind us on a daily basis of the inter-linkages between our countries. Fed chairman Ben Bernanke issues a statement on monetary policy developments in the US and financial markets around the world react. European car sales fall and platinum miners in South Africa feel the effects. Coffee drinking in China increases and farmers in Ethiopia earn more. Our world is probably more integrated today than at any point in human history.

With the level of interdependence that the nations of the world have today, it is worth asking whether we have the appropriate relationships, institutions and rules for everyone to benefit from global integration, and whether we have the institutional mechanisms to protect the poor and vulnerable in such an integrated world. Globalisation has increased opportunities for all countries to become richer. Markets for goods and services have grown. Countries are not just able to exploit their present comparative advantages but are also able to use technology and innovation to change their comparative advantages, to move up the value chain, thereby raising incomes and living standards of the poor. The global financial system has also adapted to a world unimaginable a few decades ago. Capital is able to flow from savers to borrowers, seeking opportunities in every corner of the planet. The net effect of greater global integration is that about a billion people have been lifted out of poverty in the past twenty years, with over half of these in China.

Ladies and gentlemen, globalisation has also increased risks and vulnerabilities for all countries, in particular for poor countries and the poor and low-skilled workers within countries. A housing loan crisis in the US eventually translates into rocketing youth unemployment in Spain. A banking crisis in Cyprus sends shares on the world’s stock exchanges lower. Curbs on the importation of gold in India impact on the earnings of Ghanaian and South African gold miners. And so, while globalisation and its tools – supply chains, technology and finance – has made a major positive contribution to development, these same tools have also made the world more complex, risky and dangerous, especially for the poor.

Globalisation has also coincided with a marked increase in inequality in most major economies in the world. As capital has become more mobile, investors are able to achieve higher returns by investing in new frontier markets. On the other hand, the entry of a billion more workers into the global labour force has depressed wages for low-skilled workers. The combination of these effects is that the rich have done far better out of globalisation than the poor. While it is undoubtedly true that poverty rates have fallen, the phenomenal increase in incomes going to the top one per cent of the world’s population raises the threat of social instability, conflict and strife.

How do we build a world where everyone can benefit from globalisation? How do we build a world where there is a fairer distribution of the upside benefits and the world’s poor have greater protection from threats and vulnerabilities that are inherent in a more connected world? It is in the interest of all of us to look critically at the rules and institutions that we have that govern the global economy to ensure that they are fairer and more just.

In 1994, South Africa re-entered the community of nations. There were those who argued that we should re-enter the global system slowly and cautiously. But because South Africa is a low-savings economy and, therefore, dependent on foreign savings to finance investment, our re-entry into the world economy was both bold and rapid. In a relatively short period, trade barriers were significantly reduced, capital controls on non-residents were abolished and financial markets were opened up.

South Africa has benefited from this strategy. In many ways, our faith in the international community has paid dividends. South Africa is able to access foreign savings, South African firms have access to global markets, businesses have access to foreign technology and government can raise capital abroad for its investments.

This road, however, has not been a smooth one and we have been exposed to a number of external shocks. Shortly after the transition to democracy, we were affected by the Asian crisis and the Russian debt default, which impacted our currency. At the end of 2001, in the aftermath of the dot com bubble and the events of September 11, we faced another sharp fall in the exchange rate. When the sub-prime crisis exploded and Lehman Brothers crashed, our economy suffered too, with close to one million workers losing jobs. Economic rebalancing in China has sent commodity prices lower, with its attendant consequences on our terms of trade. Both the onset of quantitative easing and, more recently, expectations of tapering, have introduced volatility into our economy that makes macroeconomic management more difficult.

The South African economy, in tandem with many other economies around the world, is growing below its potential rate of growth. While part of the reason for slow growth relates to the global economy, there are also South African-specific issues that inhibit our ability to grow faster and create jobs. Over the past year, the South African Reserve Bank has highlighted some of these issues, even though we ourselves do not have the policy instruments to deal with these issues directly. We remain of the view that higher economic growth requires both sound macroeconomic management, over which we have some influence, as well as on-going reforms to improve the education system, improve the functioning of the labour market, reduce the costs of doing business and increase competitiveness in the economy.

While we remain concerned about the effects of strike action on the economy, we are encouraged that, whereas 2012 was marred by a series of unprocedural and violent strikes, so far the strikes in 2013 have largely been peaceful and legal. In addition to stabilising the labour relations environment, South Africa recognises the need to take steps to reduce our vulnerability in a world economy that remains volatile and uncertain. Sound macroeconomic management to rebuild policy space and buffers and the implementation of the new twin-peaks model of financial regulation are our highest priorities. These efforts will complement other much-needed reforms to boost growth and employment.

In the implementation of monetary policy, the South African Reserve Bank faces a difficult set of challenges, given slowing growth and rising inflationary pressures. The Bank will continue to take the necessary steps to anchor inflation expectations and achieve price stability within our mandate of flexible inflation targeting.

There are also a series of measures that the international community needs to take collectively to make the world a safer, fairer and more prosperous place for all. I wish to highlight three aspects. The first is accelerated reform of the global financial system. The second is continued reform and strengthening of global and regional institutions such as the United Nations, the International Monetary Fund (IMF), the African Union (AU), and the Southern African Development Community (SADC). The third is to promote regional economic integration, especially on the African continent.

Five years after the collapse of Lehman Brothers, the world remains a risky place, with the financial sector still constituting a major source of fragility. Reform processes led by the Financial Stability Board, the G20 and the Bank for International Settlements are pointing us in the right direction, but progress in implementing these reforms is slow and uneven across major regions of the world. The world has a broad framework to regulate globally-systemic financial institutions but there remain gaps, especially regarding resolution mechanisms when banks fail.

A major source of the crisis was the build-up of significant external imbalances. The world has made slow progress in tackling high current account imbalances across the globe, which has spill-over effects on smaller countries. The recent sell-off in emerging markets in response to talk of tapering in the US is an example of how policies in one country, especially one as powerful as the United States, have unintended consequences for other countries. Many countries continue to pursue exchange rate policies that distort trade and investment flows. Naturally, each country pursues policies that suit its own national circumstances. At times, these policies exacerbate global fragilities rather than contributing to their resolution.

The world would benefit from a higher level of coordination and cooperation to limit the spill over effects of domestic interest and exchange rate policies on smaller open economies. The world also needs more robust institutions to reduce the cost of insurance for individual countries as well as to objectively enforce rules and standards, with the aim of reducing future crises. At present, there is a perception that bodies such as the IMF apply rules inconsistently, with one set of rules for developing countries and another for advanced economies. South Africa, like most other countries, is a member of the IMF and it is in our collective interest for this body to be credible, strong and responsive.

The paralysis in world trade negotiations has given rise to regional trading blocs and bilateral trade agreements. Given the asymmetry in power across the world, such an approach to negotiations is always going to result in a skewed system, biased towards richer countries at the expense of poorer ones. Fair and open trade and increased market access for poorer countries to richer ones is essential to reduce the build-up of imbalances.

On the African continent, more needs to be done to strengthen the African Union. Quite a number of countries do not pay their dues, resulting in the organisation being overly dependent on donors. While donations are always welcome, it cannot be right for an important continental body to be so reliant on foreign funding. A stronger African Union can play a driving role in supporting the development of infrastructure that is essential for enhanced economic growth and development across the continent.

The process of establishing regional economic communities is proceeding slowly and unevenly. East Africa and West Africa have probably made more progress than we have made in Southern Africa. There remain significant obstacles to greater regional integration, especially in Southern Africa. These obstacles include hard issues such as infrastructure constraints, energy shortages and different rail systems as well as softer issues such as high tariffs, significant non-tariff barriers and numerous challenges at border crossings.

Many of Southern Africa’s problems are less intractable when taking a regional perspective. Water, food and energy security, as well as adapting to climate change, are all problems that require regional solutions. Southern Africa has significant hydroelectric potential that can only be tapped in an economically viable manner if we have regional supply networks. While South Africa and several of its neighbours are water scarce and hence cannot and perhaps should not be growing certain crops, many other countries have the water resources to grow a broader range of foods and fruits and become the breadbasket for the region and beyond.

It is also natural that, as countries develop, certain industries become less sustainable for higher cost producers. Given the different levels of development and per capita incomes in sub-Saharan Africa, a win-win solution could be to develop parts of the supply chain in neighbouring countries to take advantage of lower costs.

The challenge with many of these ideas and options is high transportation costs and inefficient and unreliable freight logistics systems.

The South African Reserve Bank is making a contribution towards regional integration in the payments area by leading a pilot project for a real time electronic settlement system, which was launched in the Common Monetary Area (CMA) in July this year. Preparations are now under way to expand it beyond the CMA into other SADC countries. Payments systems are a key piece of the infrastructure required to facilitate trade and investment.

Globalisation can be a force for good. Greater economic integration has the potential to lift millions more out of poverty. To achieve these outcomes we all need to do more to make the world economy safer, less crisis prone and fairer and take the necessary steps to enhance the framework that govern our myriad linkages and interactions. We also need to focus more on building credible global institutions that help to deliver global public goods.

In the realm of financial markets, solid progress is being made in developing new rules, standards and mechanisms, yet more needs to be done to ensure consistent implementation. From the South African Reserve Bank perspective, we will continue to argue for reform of the global financial system to make it fairer and invest in building our internal institutions.

South Africa's progress since 1994 has been supported by the efforts of the international community. We look forward to our continued working together to build a fairer and more just world, one in which the poor, too, can benefit from financial inclusion, economic growth and globalisation.

Thank you.