South African Reserve Bank

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German G-20 presidency in 2017:
opportunities and challenges for South Africa

1. Introduction

Good evening, ladies and gentlemen.

Thank you to Dr Andreas Dombret, member of the Executive Board of the Deutsche Bundesbank, and to Dr Arno Bäcker, President of the Deutsche Bundesbank regional office for Hamburg, Mecklenburg Western Pomerania and Schleswig-Holstein for the kind invitation to speak to you today in this great Hanseatic city.

This is certainly an intriguing city, often referred to as ‘the gateway to the world’ and ‘the Venice of the North’, names derived from the fact that Hamburg is home to one of the largest harbours in Europe, and therefore the centre of German trade. Interestingly, it has more bridges than Venice. We also know that Hamburg has a vibrant cultural life when it comes to art and music, including its unique association with the Beatles.

South Africa takes a keen interest in Germany and Europe at large, given the substantial trade linkages and therefore significant implications for our economic prospects. Not only is Germany the second-largest trading partner for South Africa, but also one of the biggest investors in the domestic economy, with close to 600 German companies located in South Africa and

Disclaimer: *There may be minor differences between this version of the speech and the delivered German version* providing over 90 000 jobs.[1] Such a presence contributes significantly to employment and skills development, but also to technological advancement in South Africa.

I thought that since I am in the G-20[2] host country, it may be useful to share some thoughts with you on the G-20 in general and more specifically insofar as South Africa and the South African Reserve Bank have experienced it thus far, and highlight some of the opportunities and challenges as we perceive them.

Indeed, Germany has assumed the G-20 presidency at an important juncture, a time when countries are increasingly turning inward, with anti-globalisation sentiment and populist rhetoric growing stronger. As Chancellor Angela Merkel noted a few months back, the current environment is marked by a strong emphasis on the nation state. She cautioned that withdrawing and concentrating on one's own country has never been of benefit to anyone in the end, instead, this has always caused harm. As such, Germany's motto of 'shaping an interconnected world' is certainly appropriate as it talks to the benefits of globalisation and, along with it, the need to ensure that the fruits thereof are shared in a manner that is more inclusive.

2. G-20 track record

Germany played a leading role in the formation of the G-20. It was in the wake of the 1997 Asian financial crisis and during the 1999 German presidency of the G-7[3] that the G-20 was launched as a new forum on 'key economic and financial policy issues among systemically significant economies'[4]. Ten years later, and coincidentally after yet another financial crisis, the status of the G-20

[1] www.southafrica.diplo.de
[2] Group of Twenty
[3] Group of Seven (industrialized democracies)
[4] http://www.g20.org

was elevated to that of a Leaders' Summit; it has become the premier forum for international economic and financial cooperation. Prior to this, the G-20 initiative had been at the level of finance ministers and central bank governors.

Almost a decade on from the 2007 global financial crisis, perhaps it is prudent to ask: does the G-20 remain the premier forum for international engagement and cooperation on global economic and financial affairs, as it purports to be? How much has it achieved? Is it still relevant and effective?

I think it can be argued that the G-20 has achieved a number of successes, certainly remains relevant, and many would agree that it is indeed the most appropriate forum given its representation, and as such is well placed to address issues of global economic and financial importance. However, we can never become complacent since there is little doubt that there is much more that can and should be done, especially given some criticism voiced that the G20 was a good crisis manager, but may be less successful as a forum for coordinating crisis prevention.

The purpose of the G-20 forum is to enhance cooperation. Cooperation is about collaboration, partnerships, unity and compromise, which ultimately means working and acting together for a common purpose. The German Federal Finance Minister, Wolfgang Schäuble, could not have put it in a simpler and more concise way when he said the following at the first G-20 meeting under the German presidency in Berlin in December 2016: "We will only be able to solve the problems of the world if we work together." He went on to mention that "global solutions are needed for global challenges".

During the first Leaders' Summit in 2008, the G-20 focused primarily on strengthening economic growth, dealing with the economic and financial crisis, and laying the foundation for much-needed reform of the financial sector. There was a drive to reform the International Monetary Fund (IMF), the World Bank and other multilateral development banks, coupled with initiatives to resist trade protectionism and work towards the conclusion of the Doha

Development Round, the objective of which was to lower trade barriers and facilitate increased global trade. The London Summit of April 2009 focused on coordinated fiscal and monetary stimulus measures to avert the threat of a global depression. Leaders agreed on additional resources of up to US$1 trillion for the IMF to assist countries in weathering the financial crisis. The Financial Stability Forum at the Bank for International Settlements, which at the time was only represented by advanced economies, was transformed into the Financial Stability Board (FSB), with key emerging market economies represented on the FSB. In September 2009, the G-20 leaders also agreed on the implementation of a framework for strong, sustainable and balanced growth.

By the time of the Toronto Summit in June 2010, fears were escalating over the deteriorating fiscal health of various advanced economies as they tried to support growth. Advanced economies with large deficits agreed to at least halve their fiscal deficits by 2013 and to stabilise or reduce sovereign debt ratios by 2016. These commitments included ongoing structural reforms 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.

By 2012, the European banking and sovereign debt crisis received much attention, with the spillover effects to other member countries in a globally interconnected world and the need for policymakers in Europe to take decisive and credible action featuring strongly. With this in mind, and with the potential for increased instability, the G-20 leaders pledged over US$450 billion in financial resources to boost the IMF firewall at the June 2012 Los Cabos Summit. In 2014, the G-20 adopted the 2-in-5 objective, committing to collectively raise G-20 output by an additional 2 per cent over a five-year period, by 2018.

The contribution of central banks, within their mandates, has largely been through supportive monetary policies, reforms to the international financial architecture, strengthening the resilience of the financial sector, leading the dialogue on global regulatory reform, playing a key role on the FSB, and assisting in developing strategies for sustainable economic growth. Without too much chest-beating for my own guild, I do think that the contribution of monetary policy in addressing the economic challenges is beyond question. In fact, it has been widely recognised that there has, at times, been an over-reliance on monetary policy to address the binding growth constraints in many economies.

It is thus clear that the G-20 has taken much action over the years, but the global economic recovery has nevertheless been less than inspiring. Hence, we are now witnessing a rise in anti-globalisation rhetoric, a rise in populism, and countries developing greater nationalist tendencies. The G-20 has an important leadership role to play in unpacking and addressing the reasons for this change in sentiment and highlighting the negative ramifications of an inward bias. We need to emphasise the positive spillovers of globalisation, but also accept that we may have underestimated the number of people were left behind and who did not share in the spoils of globalisation. It is with this in mind then, that Germany's focus on 'shaping an interconnected world' and enhancing resilience is very pertinent.

Germany's three main pillars for the G-20 presidency – of ensuring stability, improving viability for the future, and accepting responsibility – reflect continuity of the G-20 agenda over the years and also aim to tackle the issues I have just spoken of. The issue of accepting responsibility is borne out by the new agenda item, 'Compact with Africa', which speaks directly to achieving sustainable economic progress in Africa as part of addressing some of the root causes for the various migration crises we have been observing. I will return to this later.

I must add that we certainly welcome the more streamlined agenda that the German presidency has put together, particularly in light of the fact that the agenda of the G-20 had become more bloated over the years, with the increasing risk of detracting from the effectiveness, efficiency and credibility of this forum. We are looking forward to Germany's G-20 leadership during 2017, and I am convinced that the forum will greatly benefit from some of the virtues that Germany is famous for, such as thoroughness, efficiency and punctuality. Some of our colleagues have already had a taste of this at our meetings in Berlin during December.

3. South Africa's participation in the G-20: opportunities and challenges

How does a small, open economy such as South Africa fit into the G-20? South Africa has a high level of interconnectedness to Africa and within the global economy, not only through trade links but also because of our deep and sophisticated financial markets. Our membership of the G-20 forum provides South Africa with the space to participate in shaping key international policies that could have an impact on our own economy, the region and the continent as a whole.

Our network of contacts from our interactions in various G-20 forums provides great opportunities to enhance South Africa's international profile and reputation. It also allows us to keep pace with global best practice and learn from others, helping us to make more informed and therefore better policy decisions. South Africa's participation in the G-20 helps to leverage its voice and effectiveness in other international standard-setting bodies, including the FSB, the Basel Committee on Bank Supervision, and the Financial Action Task Force, to name a few. South Africa has already adopted international best practice in areas such as financial regulatory reform, including being an early adopter of Basle III.

It is important to focus on the underdevelopment of various regions in the global economy, including sub-Saharan Africa, and to ensure that the issues of relevance to these regions are on the table of the global policy agenda. At the Toronto Summit in June 2010, the G-20 leaders confirmed the inclusion of ‘development’ as a key agenda topic, and at the Seoul Summit later that year they agreed to establish a Working Group on this issue.

Building on the development theme, we welcome the initiative that Germany has placed on the table, namely ‘Compact with Africa’, through which it hopes to encourage private-sector investment, including in infrastructure, to increase employment and foster sustainable growth on the continent. Under this initiative, African countries are being encouraged to discuss and agree on individual compacts, committing to concrete actions to enhance investment opportunities. As we know, the investment financing gap in Africa is huge, and closing its infrastructure gap is a top priority in order to put the continent on a path of higher and more sustainable growth and development. The ‘Compact’, which should tune into other African initiatives already underway on the continent, should help to make private investment in Africa more attractive by making it more secure, thereby reducing the barriers to investment. South Africa has the potential to contribute significantly to the growth and development agenda of the G-20 and to the ‘Compact’, and we look forward to this initiative gaining momentum in the coming months and beyond.

South Africa’s participation in the G-20 and other international forums is not without its challenges. These include constraints related to human and other resources to fully and effectively participate. The breadth of the G-20 agenda requires careful prioritization, which invariably involves compromises and trade-offs, sometimes affecting important agenda items. Another challenge relates to the ‘small country problem’, which in effect means that much energy needs to be devoted to ensure that issues of relevance to both emerging market and developing countries receive appropriate attention. Then there is the issue of countries being at different stages of development, which requires country-specific circumstances to be taken into account, and which needs to find expression in such a manner so as not to compromise international standards.

As the only African country at the G-20 table, South Africa also endeavours to highlight regional and continental issues whenever the opportunity arises, albeit without any formal mandate. In this regard we are supported by the African Union Commission and the NEPAD Secretariat as invitees to G20 meetings.

4. Opportunities and challenges for the G-20 as a forum

It seems that while the G-20 has moved beyond its teething problems and idealism as a forum for cooperation and coordination and has actually produced tangible outcomes, we have now reached the stage where we run the risk of being viewed as a forum where process issues have become more prominent and actions more difficult to agree on or implement. Indeed, at the start of the global financial crisis, the level of cooperation and coordination within the G-20 was impressive, as an array of appropriate measures was implemented to deal with the crisis and to improve resilience. Besides the achievements already referred to earlier, other very important actions were taken in the midst of the crisis, such as swap-line facilities among major advanced economies and a few select emerging markets, revisions to the IMF lending toolkit to make it more flexible and relevant, and adapting views on capital flow management measures in reaction to the changed operating environment. However, this desire to cooperate seems to have faded somewhat and some G-20 countries have since become or are becoming inwardly focused.

Last year we witnessed various unexpected political developments which could have a bearing on the work of the G-20. In 2017, there could be more surprises in store as far as voter choices are concerned, and thus major political shifts with potentially significant economic consequences. Much uncertainty currently exists with regard to the future policy direction in some of the major economies, which brings with it the possibility of increased financial market volatility.

The pushback against globalisation has become a popular theme, as an increasing number of voters believe that there is not much to gain from the current system. Instead, many believe that globalisation has benefited a small privileged elite. There are indications that policies most likely to be enacted in reaction to this phenomenon include increased restrictions to immigration and trade. Simultaneously, greater political tensions globally are, making it harder for governments to pursue the structural reforms needed to encourage investment and so boost productivity and growth.

The G-20 needs to intensify its communication and highlight that with globalisation comes more trade, more wealth, more investment, and ultimately more jobs. It means lower-cost goods from abroad, which increases spending power and results in a higher standard of living. Competition from abroad forces local firms to become more efficient and to use resources more efficiently. Clearly, globalisation is good, but we need to acknowledge the challenge that everyone should share in its fruits. We need to ensure that globalisation is accompanied by greater inclusiveness and reduced inequality.

Regarding the G-20 structural reform agenda and the 2-in-5 objective, we have made progress and implemented reforms, but, once again, we could do more. The structural reforms implemented thus far have contributed to supporting economic growth and have therefore contributed to the collective growth ambition set by the Brisbane Summit. However, we know that potential growth remains low, so we need to step up our implementation efforts, reassess on a continuous basis whether we are still on the right path with our structural reform initiatives, and review and change course where necessary

A final issue that I would like to point out relates to outreach. It is important to bear in mind that, while as a group the G-20 makes up about 80 per cent of global trade and approximately 90 per cent global GDP[5], it consists of only 19 countries, which effectively excludes more than 160 countries. Only one African country is

[5] Gross Domestic Product

represented in the forum. Hence, the G-20 needs to do significantly more outreach to ensure that the views and interests of these countries are not unduly compromised by a member-focused G-20 Agenda.

It is important to recognise that amidst the challenges, there are always opportunities. Digitalization is one such opportunity, and we know that Germany intends to focus more on digital transformation in a bid to make economies 'fit for the future'. Digitalization has immense benefits, ranging from improved access to financial services to cost savings from efficiency gains. A more financially inclusive global economy could help to support real economic activity and the growing importance of financial technology is a key contributor towards the common goal of financial inclusion. In a 2014 report, the World Bank mentioned that mobile-money accounts can drive financial inclusion in sub-Saharan Africa and that there are big opportunities to expand financial inclusion – particularly among women and the poor – through financial innovation. Once more, the G-20 is the ideal platform to jointly discuss digitalization and devise means of using it responsibly to our advantage. However, it is important that in doing so we do not lose sight of the financial stability considerations associated with the evolving digital world. Thus, South Africa welcomes the proposal that the G-20 take action to improve cybersecurity in the financial sector to address financial stability risks. Continued investment in the ability to detect and respond to cybersecurity threats is needed to ensure that we remain in a proactive rather than a reactive mode to counter the potential threats posed by cybercrime.

Another opportunity advocated by Germany is the development of a holistic policy framework to measure the effects of financial reforms. We must remain sensitive to the potential unintended consequences of the implementation of these reforms, especially given the differing levels of financial sophistication in different jurisdictions. A lack of international consistency among and within regulators and central banks regarding roles, policies, directives and guidance could pose risks of instability, especially where cross-border flows are affected.

How do we make the best of the opportunities presented? How do we react to and deal with these challenges? Only through cooperation and collaboration for a common purpose, since by so doing, we contribute to the creation of a more equitable world, both in terms of geographical distribution as well as within national boundaries.

5. Conclusion

Let me then conclude by saying that we are very excited about the year ahead and the promises it holds. We believe that much can be gained if we work together, if we tackle the difficult issues of exclusion and inequality, if we make the most of the opportunities presented to us. We appreciate Germany's desire to use its presidency to intensify international cooperation and ensure that globalisation benefits everyone. This is not an easy task, but it is necessary to ensure strong, sustainable, balanced and inclusive growth. South Africa is fully supportive of this objective and will contribute wherever appropriate.

Thank you.