

The Republic of South Africa and the G20: Its Political, National Interests and Priorities as Member of the Process

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Introduction

In rudimentary terms the involvement of emerging nations in the G20 brings new voices to the central global stage, allows the articulation of new messages and priorities, and creates expectations about various institutional and policy outcomes from the involvement. While other middle-income countries also participate in the organisation, South Africa's involvement has two other considerations, namely the "representative" question and the compatibility of other institutional memberships, both referred to below.

Contextual Factors

South Africa's GDP was \$527.5 billion in 2010, the 26th largest in the world and the largest in Africa.¹ It has a diversified economy dominated by the services sector (65%) followed by manufacturing, mining and agriculture. It has extensive coal reserves but no oil and has been a pioneer in producing oil from coal, and in exporting this technology. It is the world's largest producer of platinum, manganese and chrome but has dropped from first to fifth largest gold producer in the last two decades. It has traditionally had agricultural exports but in recent years it has for the first time in its history become a net importer of food. Inward FDI is relatively low by emerging market standards and in some years South Africa is a net exporter of capital. Its major export markets are China (its dominant trading partner), the US, Japan, Germany, the UK and sub-Saharan Africa and its main imports emanate from China, Germany, the US, Saudi Arabia and Japan. It currently has a relatively low level of economic growth (4% in the IMF's latest estimates), high levels of unemployment (over 30%), significant inequality (it tops the Gini coefficient table), and a relatively low level of national debt (at 40% of GDP). South Africa ranks 21st out of 48

¹ It accounts for over 30% of combined African GDP.

countries in the OECD's Regulatory Restrictiveness Index,² and in the 2010 Global Integrity Report, covering 36 countries, South Africa achieved a moderate overall score of 79 out of 100, with an implementation score of 70 (which is considered weak) but with strengths in the legal framework which scored 88.

Institutionally, South Africa has a sophisticated constitution which incorporates liberal constitutional features such as the separation of powers and independent courts, progressive features such as enforceable socio-economic rights, and globalist features such as the contingent relevance of international law principles. The constitution supports a multi-party political system, an independent electoral commission and a range of independent economic and administrative institutions such as the central bank and a public protector. There is also an efficient revenue service. At the apex of the constitutional system is a court of 11 judges which can adjudicate on all matters with a constitutional element, which in the South African context entails a broad mandate over matters ranging from the separation of powers to citizens' rights to water, housing and anti-retroviral drugs. There is a pluralistic legal regime which includes provisions for African customary law and the invocation of international law principles in appropriate circumstances.

Regionally South Africa is a member of the SACU, the SADC and the AU (and its off-shoot NEPAD) and internationally has been a long-standing member of the UN, GATT and WTO. The country has had a prominent role in the IMF and is currently a rotating member of the UN Security Council but is not a member of ICSID. Besides its membership of the G20 South Africa is also, with India and Brazil, a member of the development-oriented organisation IBSA and since 2011 it has been a member of the BRICS together with those countries and China and Russia. The African memberships raise questions about South Africa's "representative" role and the BRICS membership about the "gateway into Africa" issue, given the relatively small size of its economy in the BRICS context. Membership of these organisations is also significant in terms of the regrouping of emerging countries since the late 1990s through various regional organisations; while these are commensurate with more established regional groups they are not always compatible with the imperatives of multilateralism. It does entail, however, that there could be some collectivity of action by such groupings within the G20.

The Representational Issue in the G20

The G20 was explicitly established on a non-constituency basis and is portrayed as a partnership between individual developed and emerging economies. However, in the case of South Africa the "first from Africa" tag has been

² China, Iceland and Russia are the most restrictive and the Netherlands, Portugal and Luxembourg the least restrictive.

transposed from the World Cup in 2010 to both the BRICS and the G20. This is an onerous tag given the relatively small weight South Africa carries in international affairs and the immense economic, political and cultural diversity in a continent approaching 1 billion people. However, the fact remains that over 50 African countries are not represented in the G20³ and despite South Africa having no direct mandate there have been pronouncements in diplomatic quarters that the country should seek to “represent” the continent. There has even been some self-definition along these lines by South African leaders, for example at the G20 working dinner in 2009 President Zuma stated:

As Africa we bring to the G-20 summit the key message that we must act together as the developing and developed world, promote stronger and more effective and equal international partnerships for growth and development.

Other commentators have suggested that South Africa has a “moral obligation” towards the continent to call for such matters as a more responsible management of the global financial system. However, there are as many objections to this representational role on the basis that Africa is not a single economic entity but a highly diverse continent. In practical terms South Africa has used its membership of NEPAD⁴ and the C-10⁵ for purposes of consultation and report backs on G20 matters. Moreover, in 2010 a communiqué from the C-10 made several pronouncements on the G20, requesting South Africa to circulate a summary of its position to all members in advance of the Seoul Summit that year. Article 14 of the communiqué stated:

We remain concerned that Africa is not adequately represented in key international fora, including the G-20. Africa’s participation should not depend on ad hoc invitations from the G-20 summit host. In this regard, we took note of the African Union recommending that Africa’s participation be formalised in the G-20. We hope that the forthcoming G-20 summit will extend membership accordingly.

However while generic “representation” along these lines is always feasible, the notion that South Africa can represent Africa on specific issues remains problematic given that Africa economies are embracing globalisation and neo-liberal policies in very different degrees and have immense structural differences in terms of resources, investment, infrastructure and the like.

Similar issues arise in relation to the “representation” of the regional interests in SADC or SACU. While customs and some trade links operate

³ Other than through the presence by invitation of the AU, along with other regional groups.

⁴ This is an economic development plan for the AU.

⁵ This is a Committee of 10 African Finance Ministers and Central and Regional Bank Governors established in 2008.

on a regional basis through these institutions there is in fact a relative lack of economic integration within the region. Moreover, South Africa has no specific mandates for the G20 in relation to regional issues and as the dominant economy in the two regional organisations there are reasons for other member countries to have concerns over the representation question.

It can therefore be expected that South Africa will bring to the G20 table its own interests, packaged as general and universal principles. As President Zuma indicated in the Seoul leaders' summit,

South Africa participates in the G-20 summit within the context of contributing to and strengthening the multilateral system to ensure fair and effective responses to the challenges confronting world trade today. South Africa is part of the G-20 as it is systematically important for the country, with national economic interests to promote.

South Africa is represented in the G20 through the Office of the Presidency and in promoting the country's own political and economic interests it focuses on economic growth, the attraction of quality inward FDI and increased employment. The South Africa delegation conducts pre- and post-G20 briefings and reports with a statutory-based body known as NEDLAC, a consultative forum in which government, business, organised labour and civil society engage with one another on the future economic directions of the country.⁶ While NEDLAC is designed to discuss and reach consensus on issues of social and economic policy for the country, it does not mandate the G20 delegation and the government has conceded that the council should be involved to a greater extent in relation to matters coming before the group.

As regards its own potential benefits, G20 membership provides South Africa with an international profile and potential diplomatic leverage more prominent than any direct economic benefits. An example of an area in which South Africa needs to promote its direct economic interests in the G20 is in relation to mineral beneficiation. The relative lack of beneficiation is a particular weakness of the South African economy, in particular in relation to minerals such as iron ore where the country exports most of its products as raw materials and imports steel and manufactured products in return. However, there is likely to be little traction in the promotion of this economic interest in the G20 whereas in the BRICS it has made some nominal headway: for example, after the 2011 BRICS summit the Minister of Trade and Industry indicated that Chinese delegates were sympathetic to South Africa's call for foreign investment in the beneficiation sector. While such statements are often made for domestic political consumption, and any beneficiation benefits might be

⁶ NEDLAC was established by the National Economic Development and Labour Council Act No 35 of 1994. The main departments involved from government are Trade and Industry, Finance, Labour and Public Works.

limited, the BRIC economies do collectively offer a potential investment pool for developing countries such as South Africa.

Procedural Issues in the G20

Attention is given to three procedural issues in the G20 in which emerging nations such as South Africa could be involved—agenda setting, the discourse on the global political economy, and compliance issues. This is against a background of general procedural requirements of inclusion, consultation and transparency which can be expected of a body itself prescribing good governance for other international and domestic institutions.⁷

Both political science and group dynamics recognise the importance of agency in the development of agendas for meetings and summits. Agendas establish the normative discourse for discussions, they frame the questions, they privilege some issues over others, and they marginalise or exclude topics not palatable to the agencies concerned. Danny Bradlow⁸ contends that the G20's elevation from a ministerial to a leadership summit can benefit developing countries through the capacity to influence agendas and focus on long-term goals which are infused with short-term objectives. His argument is that emerging nations must seek to influence the agenda at the leadership level by pushing for their national economic and political interests within the broader framework of global governance, such that emerging countries' G20 objectives dove-tail with their domestic priorities.

Nominally, it is the rotating chairs of the organisation that can determine agendas and priorities for summit meetings, but in practice the G7 has had particular influence in this regard. Generally, the G7 heads of state and finance ministers meet before G20 meetings, which allows them to formulate common agenda items which are legitimised by the G20 meetings. Bradlow laments the influence of the G7 over the G20 agenda, commenting:

The shift in power away from the G-7 should not be overstated. While these countries have accepted the G-20's pre-eminence in economic matters, they have not surrendered their control over the global economic agenda, which is dominated by the regulatory and governance issues of most interest to them. The shifting balance of power merely means that the rising powers in the G-20 can participate

⁷ While the subject is not dealt with here, the development of independent mechanisms of public accountability for the IMF is long overdue in terms of universal principles of good administrative law.

⁸ "Reforming Global Economic Governance: A strategy for middle powers in the G20", *Social Europe Journal* (Available at <http://www.social-europe.eu/2010/08/reforming-global-economic-governance-a-strategy-for-middle-powers-in-the-g20/>)

in the discussions of these agenda items and can influence their prioritisation. They do not appear able, however, to persuade the G-20 to take decisions that the G-7 opposes,⁹ nor does the 'consensus-based' nature of the organisation allow it.

Some indication of the conservative nature of G20 agendas emanates from France, the current head of the institution, which has listed the following priorities for its tenure:

- Reforming the international monetary system;
- Strengthening financial regulation;
- Combating commodity price volatility;
- Supporting employment and strengthening the social dimensions of globalisation;
- Fighting corruption and working on behalf of development.¹⁰

This agenda has changed a negligible amount since the inception of the group more than a decade ago. Moreover, while emerging nations' interests can be read into the generalised agenda priorities, their very breadth allows them to be reframed in terms of dominant power interests. Issues that matter most to G7 countries tend to come to the surface of G20 discussions but the agenda control is not overt in nature. In a study of nine G20 communiqués Martínez¹¹ found that the G7's position was reflected twice as much as the G24's position and that the organisation remained neutral on issues in which G7 consumers, firms or governments would have to bear the costs had the G24 position prevailed, for instance imposition of capital controls by developing countries and removal of tariffs and subsidies in agriculture.

However, the rotating leadership arrangement does allow for broader influences. When China was G20 chair in 2005, reform of the Bretton Woods institutions topped the agenda. Moreover, the BRICS grouping now formulates positions in advance of G20 meetings, making them less easy to overlook. Finally, leadership in the G20 working groups provides some direct influence for emerging nations: for example, on 23 May 2011, South Africa and Australia, co-chairs of the IMF reform working group, issued a joint statement calling for greater transparency and meritocracy in the appointment of

⁹ Ibid.

¹⁰ See "The Priorities of the French Presidency". Available at www.g20-g8.com/g8-g20/english/priorities-for-france/the-priorities-of-the-french-presidency.75.html, accessed 10 March 2011.

¹¹ Leonardo Martínez-Díaz, "The G-20 after Eight Years: How Effective a Vehicle for Developing-Country Influence" (2007) accessed at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1080280, on 05/07/2011.

the IMF head.¹² While pronouncements may not significantly impact agendas, they do modify the discourse of the global political economy.

Two illustrations suggest that while the G20 is a provider of general truths as opposed to specific deliverables the dominant discourse can be challenged and in some respects changed. The first relates to financial inclusion which within a relatively short time has become part of mainstream thinking and prominent in the G20. The second is in relation to economic growth which is usually measured in average per capita terms where it is assumed to be commensurate with poverty reduction, whereas issues of distribution and equality and other cultural, social and political issues have now been incorporated into the economic growth discourse. Whereas language and terminology deriving from the Washington consensus, such as “free trade”, “removal of barriers” and “market choices”, purport to be neutral and even scientific, they impose a particular ideology on global discussions within which it is difficult to challenge prevailing policies. While conventional economic dogma has been a remarkable survivor of the GFC, the greater involvement of emerging nations provides some space for alternative discourses, and where terminology changes so do perceptions.

The third procedural area in which emerging nations might attempt to influence the G20 is in relation to compliance. In the absence of a treaty basis for its establishment, functions and powers, there are limitations to the enforceability of its decisions and recommendations. In fact, the path of international economic decisions and pledges are strewn with unmet promises and ignored reports, for example the 2005 G8 aid commitments to developing countries to the value of \$50 billion.¹³ Compliance with international policies by developed countries is a function of their national interests, domestic politics and international strength, whereas in the developing world it is a function of diplomatic and market pressure which can be difficult to withstand.¹⁴

It is a truism that the implementation of G20 recommendations is not undertaken by the organisation itself, but relies on global and domestic compliance measures. While national and international NGOs have undertaken extensive monitoring and compliance activities in relation to international financial and domestic political institutions, the centre stage role of emerging nations provides them with the vantage to undertake some of these themselves.

¹² See *The New Age*, Johannesburg, 23 May 2011.

¹³ The G8's Deauville Accountability Report claims substantial compliance but in a context of decreasing ODA post the GFC, civil society has criticized it as reducing accountability to a smoke and mirrors exercise. See “G8 ‘cooked books’ over Gleneagles aid pledges”, <http://mg.co.za/article/2011-05-19-g8-cooked-books-over-gleneagles-aid-pledges>.

¹⁴ South African banks, for example, are required to comply with Basel and other international standards as conditions of doing business in Europe or North America and not because of legal enforceability.

While this is more a defensive than an activist role it would provide for a largely unaccountable institution to be evaluated publicly in terms of its own rhetoric.

Substantive Issues

Given the relatively modest power of emerging nations such as South Africa, direct influence over G20 policy is likely to be restricted. However, reference is made here to three areas in which there might be constructive contributions reflecting some of the world's economic and political plurality.

The first is in relation to the Seoul Development Consensus which outlines target areas for G20 countries in developing their domestic economies within the framework of broader G20 objectives. The Consensus has nine broad focus areas, including infrastructural development, human resources development, trade, private investment and job creation, food security and growth with resilience. While worded at a high level of generality, it provides legitimacy to current South African projects such as a major electricity generation project in Medupi, Limpopo, funded by international financial institutions, a public works programme designed to instil practical skills, a key focus on job creation in the 2011 budget including capital support for SMMEs, and increased social security for a society still recovering from historic inequalities and disadvantages. However, within this framework, South Africa has developed its own local policy projects: for example, in manufacturing it is funding an extensive industry policy and in relation to food security has focused on rural development through support projects for peasant farmers which do not always comply with comparative advantage principles.

South Africa has remained committed to the Doha Development Round despite the lack of real progress in the past four years, which coincides with the incorporation of Doha into G20 discussions despite the grouping being initially formed for financial institutional reform and not for trade issues.¹⁵ However, in this area, South Africa would be in the same position as many developing and emerging economies in being opposed to the opening of its markets while its agricultural sector is faced with subsidies and restrictions in developed states. However, this is also an area in which South Africa could, in terms of the discussion above, further promote a concept of economic development which embraces not only the economic dimension but cultural, social and political

¹⁵ It has been suggested, not entirely tongue-in-cheek, that South Africa could contribute to the trade debate by getting the G20 to Declare Doha Dead, and for fresh negotiations to commence on agriculture.

issues as well to avoid what Joseph Stiglitz has called the “rich country, poor people” syndrome.¹⁶

A second area in which the G20 could be helpful to emerging nations is in developing policies and frameworks on financial inclusion. Since September 2009, the G20 has had a financial inclusion expert group with various sub-groups, for example on SME finance. The Seoul summit established the Global Partnerships for Financial Inclusion (GPFI) against the background of one-third of the world’s population, and many MSMEs, being totally or effectively excluded from financial products and services. The initiative is designed, in collaboration with other relevant institutions, to give effect to the G20’s Financial Inclusion Plan. The GPFI is required to monitor its implementation and submit a progress report to the next meeting in France. While South Africa has a highly developed finance sector it has the same inclusion problems as other emerging nations though its inclusion index is considerably higher than other African states. This is being addressed through policies and practices engaging both public and private sectors, for example through mobile phone banking in which South Africa is a global leader.¹⁷ As is known from the GFC, over-inclusion in terms of excessive access to credit brings its own problems. However, in an interdependent global finance system, these are not matters which can only be regulated at the domestic level and the control of credit rating agencies is a matter which deserves attention in organisations such as the G20.

As regards the more generic issues facing the G20, Peter Draper has suggested that there are four areas in which South Africa has been emphatic since the grouping’s inception, namely in supporting global growth, regulatory financial reform and reconfiguration of the IMF, currency management practices and the Doha Round.¹⁸ Draper also suggests that given the complex financial and economic issues involved in some of these matters their furtherance might be best left to technocrats such as finance ministers and central bank governors. Given the limited meeting time and the absence of a permanent secretariat in the G20, this concept has some credence, although its

¹⁶ Joseph Stiglitz, Lecture on the global economy, delivered at the University of the Witwatersrand, Johannesburg, July 2010.

¹⁷ However South Africa is one of the economies where access to credit has to be balanced with consumer protection systems and financial literacy, new legislation in the form of the National Credit Act No 34 of 2008 and the Consumer Protection Act No 68 of 2008, each establishing dedicated regulatory institutions.

¹⁸ See The South African Objectives in the G20 Leaders Summit, Business Report, www.saiia.org.za/index.php?view=article&catid=67%3Aeconomic-diplomacy-opinion, accessed 18 March 2011.

referrals to international financial institutions, whose records have not always been impressive, has its critics.

One area in which technical and management issues arise is in relation to the financial transactions tax (FTT) policy, which has regained currency since 2010. A cross-border FTT would involve a levy as low as 0.0005% on equities, shares, bonds and other transactions, including derivatives—these kinds of international transactions are about 75 times as large as the global GDP. An FTT would have two principal objectives. The first is to raise revenue for specific purposes, such as economic development to offset reductions in ODA emanating from developed countries, or a climate change fund; the second is to impose some check on volatility caused by speculative and high volume currency movements. Even at a low rate the proceeds would be immense.¹⁹

An FTT is currently supported by countries such as France and Germany and by other EU countries provided that all EU members also agree, by no means an easy achievement. It has also recently received support from 1000 economists in a letter to the G20 lobbying for this group to support the tax. For optimal effectiveness, a FTT would need to be spread among a wide range of countries. However, on the assumption that there would be support for such a tax, there would also be concerns among emerging nations as to its use. The philosophy behind the tax is that it would be used for public goods such as managing climate change, health, education and water in the developing world, and food security for the globe. However, as the tax would be levied in domestic jurisdictions and not internationally it would be tempting for developed countries to deploy it to recover the billions of dollars spent bailing out their private financial corporations. Moreover, countries with a developed financial sector, such as South Africa which already has a tax on cross-border share transactions, could potentially generate significant amounts of revenue from a FTT, but other capital-seeking countries would be sensitive about its implications for attracting investment.

A final area in which the G20 could assist emerging nations is in relation to currency balancing. In past years the South African currency has increased in value vis-à-vis dominant global currencies, with negative implications for exports, and in particular for manufacturing industries, which in turn leads to unemployment and undermines economic diversification. In a recent presentation in Johannesburg, Joseph Stiglitz has argued that South Africa should be more interventionist in order to weaken the South African rand. These views find resonance with some sectors of industry and with organised labour. However, while emerging economies have particular problems with currency, there are concerns in all economies over currency manipulations, overt and covert. Moreover, the current dispute between China and the US has been moved

¹⁹ For example a rate of 0.05% would raise approximately \$650 billion annually.

out of the G20 to bilateral discussions in the “G2” grouping where the debate is over whether China releases the Yuan immediately from its low peg or its adjustment is a gradual process. While the international community has an interest in these outcomes, it is not privy to their deliberations. As an informal organisation without a treaty, charter or specific mandate, the G20 is not able to preclude the leakage of such issues to other institutions or groupings.

Conclusion

While the G20, in its current manifestation, operates to a significant extent at a level of political symbolism, it does have some influence in setting agendas for the global economy, in framing the discourse through which debates occur, and in promoting certain policies and programmes.

Emerging nations in the grouping are faced with the prisoner’s dilemma: if individual countries go along with the policies of the dominant (G7) nations they will benefit, over and above other emerging economies, from being compliant globalisation citizens. However, if all submit to the will of the dominant economies all will be worse off than before. Membership of the G20 provides potential political leverage but it has to be managed adroitly so that participation does not only serve to legitimise a pre-ordained agenda.

At the same time, the inter-dependence among national economies brought about through globalisation precludes any simple power equation within the G20. Financial inter-dependence creates a mutual vulnerability which potentially affects all states and attempts to organize and integrate emerging economies into the global order impact on the developed world.²⁰ The inter-dependence not only necessitated expansion of the G20 to include emerging markets but also required some new political space for the articulation of their policies and priorities. Whatever the original intentions in the creation of the G20, its institutions have always provided the potential for unexpected outcomes.

While South Africa’s involvement in the institution might seem no different to that of other emerging markets, its position in the BRICS provides new political opportunities. Here, it is important to acknowledge the extent to which the G20 will be a site of political competition. It is a truism that the global political economy is currently undergoing significant shifts in economic and political power as some economies surge and others retreat. Some of these power dynamics will be played out in the G20 itself, suggesting that the institution will not only be a potentially stabilising force in the global economy but will itself be prone to destabilisation. For this reason, the emerging economies

²⁰ See Randall Germaine, “Global Financial Governance and the Problem of Inclusion”. (2001) 7 *Global Governance* 411.

can make use of G20 opportunities to articulate long-term visions of international financial governance within which they identify achievable short-term objectives and appropriate strategies for achieving them.²¹

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²¹ See Daniel Bradlow, "Reforming Global Economic Governance: A Strategy for Middle Powers in the G 20", presentation for workshop on "Going Global: Australia, Brazil, Indonesia, Korea and South Africa in International Affairs", Jakarta, Indonesia, 25-6 May 2010.