South Africa’s Objectives at the G20

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Introduction

The financial crisis of late 2008, which began in the US and spread rapidly to Europe, confirmed two facts that had been visible earlier: first that the global economy had changed dramatically since the mid-1970s, and second, that it was no longer possible for the G8 countries of the North to ‘manage’ it on their own. It followed, therefore, that the changed geopolitical landscape had to be reflected in the global economic system.

This confirmation came with President Obama’s announcement at the Pittsburgh G20 summit in September 2009 that the G20 would now replace the G8 as the preferred grouping for international economic coordination. The much-vaunted Heiligendamm process launched by Germany in 2007, based on the outreach five interactions with China, India, South Africa, Brazil and Mexico, has been in effect supplanted by the G20.

South Africa has for long regarded the removal of global systemic inequalities as a key objective of its foreign policy. While changing the international order is an extremely ambitious objective, South Africa’s willingness to participate in many global fora, when given the opportunity, stems largely from its belief in this imperative.

South Africa is the only representative from Africa on the G20. This provides SA with elevated status on one hand, but also poses a number of challenges for the country on
the other. First, SA is still coming to terms with its apartheid past in the region and its economic dominance (some would say hegemony) on the continent. The government has been sensitive to criticism from other African states about what some perceive as hegemonic ambitions in the continent. Second, and as a result of the first, the SA government is careful not to assume that it speaks for the continent, although many outside Africa often believe that it does and thus consider Africa to be represented in informal groupings such as the G20. Third, SA recognises that its seat at the ‘global table’ does offer an important opportunity for it to raise broader African concerns; it has done so especially in the context of the G20 Finance Ministers forum. Nevertheless, South Africa has to execute a delicate balancing act.

Last, the international economic negotiations provide opportunities for small but active players such as SA to shape the rules of the game in favour of a system that allows greater domestic space for developing countries to pursue their economic goals. SA has very real concerns about its own domestic policy space and how external decisions may reduce its room to manoeuvre. Thus the efficacy of its participation will be measured by the influence it is able to exert in this area too.

This paper is divided into four parts: first, it reflects on the changing nature of the global rules of the game and what this means for developing countries; second, it discusses South Africa in the G20 and the issues it has advocated; flowing from this the paper discusses Africa’s key concerns in the context of the G20 summits; and lastly, discusses briefly some of the over the horizon challenges for both SA and Africa.

THE CHANGING NATURE OF THE RULES OF THE GAME

Economic diplomacy is concerned with setting the ‘rules of the game’ for the conduct of national economic policy. It takes place in multiple spheres and forums, with the choice of forum depending on the particular policy issues in play.

1 Whereas commercial diplomacy is primarily concerned with securing better access to foreign markets for companies currently operating in, or wishing to operate in those markets.
In keeping with Putnam’s concept of the ‘two-level game’, mounting effective economic diplomacy requires simultaneously understanding the domestic political economy environment and associated constraints on government negotiators, and the external negotiating environment with its own set of political economy constraints. It requires sufficient in-house capacity to both conduct research, and integrate external analyses into matters relating to the negotiating issue in question; in other words to generate and absorb technical knowledge. Furthermore, as Bayne and Woolcock argue, economic diplomacy is actually multi-level, since the external environment consists of at least four spheres: bilateral; regional; plurilateral; and multilateral. And Odell notes that pursuing economic diplomacy requires paying attention to both process and structure: the way in which positions are arrived at and prosecuted (process), and the political economy (structural) constraints within which they are determined.

Economic diplomacy matters to South Africa and Africa, because the rules of the game help determine the space available at the national level for economic policymaking. In an increasingly multi-polar world, international economic negotiations offer one way in which South Africa and Africa can influence the rules of the game and thereby help maximise their own space to make domestic economic policy. If the only effective participants in the formulation of the ensuing rules are the dominant actors – principally the developed countries, powerful emerging markets and their domestic constituents – these actors will formulate the rules without reference to other developing country and specifically South African and African interests. This risks constraining South African and African policy space in unpredictable ways, and imposing domestic economic

4 | Odell, J. S., Negotiating the World Economy. (New York: Cornell, 2000) Whereas he argues that process is more important in economic diplomacy than structure since outcomes vary even when power relations are balanced; our starting point is that African countries rarely encounter even playing fields (beyond their region) and hence structure matters greatly to them.
policy choices that may be inimical to pursuing sustainable and equitable development outcomes.

Modern economic diplomacy is being conducted in a rapidly evolving international environment. Traditionally developing countries approached such matters through a ‘north-south’ prism. But now the contours of the global economy are shifting. The current relocation of global economic activity is characterised by the shift of traditional smoke-stack and labour-intensive manufacturing industry from the North to a changing set of East Asian states; first the ‘tiger’ economies, then Southeast Asia, now China. Within the North, economies are being forced to adjust by shifting from manufacturing to services production. Africa, in general, and South Africa specifically, have not been active participants in these developments, although they are now resulting in new markets for South Africa and Africa in East Asia and China that complement existing northern markets for their traditional range of commodity exports. It is important to note that the rise of industrial East Asia, followed by South Asia, creates both opportunities and poses serious challenges to African economies, particularly those, like South Africa, that are keen on building their manufacturing sectors. These economic changes are creating a more complex South-South dynamic, in regard to developing common strategies for reforming both the institutions and the substance of global economic governance.

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5 | Hong Kong, Singapore, South Korea, Taiwan.
6 | However, it is important to note that while income gaps have grown in many states, that does not automatically mean the poor have grown poorer – indeed the opposite is often the case. Thus, while we should worry about growing income inequality we should not automatically equate it with growing poverty – the two are not the same. For an exposition of this logic see D. Henderson, "Globalisation, Economic Progress, and New Millennium Collectivism", in: World Economics, 5 (3), 2004, pp. 43 - 73.
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A key trend, increasingly shaping interactions concerning global governance, is the rise of the so-called ‘BRIC’ economies, which in some formulations goes further to ‘BRICSAM’


Therefore, in the medium term the pressure for more meaningful reforms in the global economic system is likely to increase, as will the role that key developing states play economically and politically.

7 | Brazil, Russia, India and China.
8 | BRICs plus South Africa, ASEAN, and Mexico.
9 | Goldman Sachs (2005), “How Solid are the BRICs?”,
The ‘theory of hegemonic stability’ within the discipline of international relations, associated with the work of, inter alia, Robert Gilpin, provides a useful reference point for understanding how developing countries should engage with northern powers, especially the US, in reforming the global economic governance architecture. Essentially, it will be difficult, in the absence of a substantial loss of absolute power or an abdication of global leadership by the US, for developing countries to undo the liberal economic principles underpinning the system. This raises the interesting question of whether, as US power declines relative to its competitors it will abandon its leadership role in the institutions it was so instrumental in constructing. More importantly, whether these multilateral regimes constructed in the post World War Two period will be able to adapt to the loss of this leadership role.

The financial crisis has hastened the process of transferring power and responsibility, from the US and its G8 allies to major emerging powers. Both the G8 countries and the countries being accorded ‘privileged’ positions in the new order are in the process of learning how to adjust to the new arrangements. The newly ‘privileged’ developing countries, potentially including all the developing country participants in the G20, not only have to learn how to take full advantage of their new position, but also how to balance it with their existing relations with their regional partners and allies in the global south.

Ultimately, all state-actors in this global realignment have an incentive to test whether the inherited multilateral structures can be suitably adapted to a new geopolitical era. This dynamic underpins the various processes concerning reform of global economic governance. Informal groupings such as the G8; the core group which drove the negotiation of the Copenhagen Accord on climate change; and the G20 finance forum (now elevated to summit level) attest to the importance of small group processes in driving forward negotiations concerning global economic governance matters. The challenge for African countries in general and

11 | Free trade, monetary stability, and free capital movements. ibid., p. 99.
South Africa in particular, is to understand how they can participate in these processes meaningfully. This in turn requires a sophisticated understanding of the opportunities they offer, their limitations, and operational practices.

For the developing countries at the centre of this global adjustment process, like South Africa, there is a need to evaluate the potential for forging a range of alliances within the South in particular, and, on specific issues of mutual interest, with like-minded northern partners. In this regard it is important to note, for example, that there are many in Europe who believe that in this period of global tension, the North should be cooperating with the South to effect change in the global rules of the game.

Since the onset of the financial crisis the G20 has moved to centre stage regarding global economic governance in general, and reform of international finance regulation in particular. For developing countries this potentially creates a real and possibly their most important opportunity to influence the future global economic governance framework. Such engagement requires identification of issues of both immediate and longer term interest to both these countries and the broader G20 membership, and planning on how to use these issues to advance their long and short term strategic objectives. While the G8 caucus within the G20 Finance Forum may have played a dominant role in many of the discussions in the past, it is likely that the terrain may become more contested in the future, especially as the big emerging powers begin to flex their muscles, and new caucuses form within it.

**SOUTH AFRICA’S CONCERNS IN THE G20**

In 2009, the SA economy headed into its first recession since 1992, after 16 years of uninterrupted, albeit anaemic growth. Consequently, the first priority of the government after the crisis was to ensure that the short-term agenda outlined during the Washington Summit was adequately addressed, with appropriate measures taken in the major developed countries to underpin growth. This was largely fulfilled. Similarly, the South African financial sector emerged from the crisis relatively unscathed. Thus, while
While the impending doom of a global meltdown has receded and the South African economy is expecting a reduced deficit and some growth during 2010, the country has lost some 1 million jobs since the downturn. The decisions to create the Financial Stability Board and to buttress this with a greater role for the IMF in global surveillance are significant developments for SA, as is ensuring continued access to finance, both for SA and other African economies. SA faces continued pressure on its current account, which has been in escalating deficit for some years now. That deficit has been financed by short-term portfolio inflows. In the context of the global credit crunch there were concerns that financing for the deficit would dry up, precipitating a currency crisis.12

Furthermore, South Africa has a strong interest in maintaining economic and political stability on the continent since a growing portion of its value added exports and outward foreign direct investment are destined for African markets. The G20 summits’ focus on the impact on Africa concerning IMF capital injections, overseas development assistance (ODA) flows to poor countries and increased trade funding thus were of particular relevance to SA.

While the impending doom of a global meltdown has receded and the South African economy is expecting a reduced deficit and some growth during 2010, the country has lost some 1 million jobs since the downturn. This reflects partly the huge structural challenges of the South African economy, which the crisis compounded. The government strongly believes that to counter these structural issues, necessitates the protection of domestic policy space from externally imposed rules and regulations. The medium-term priorities of financial regulation and global governance reform are issues thus that SA considers can play a determining role in whether the future structure of the global system is fairer to developing economies.

12 | This has been averted, and the projections for the 2009/2010 fiscal year show the deficit below earlier forecasts by the Treasury, as revenue collections were better than expected.
AFRICA’S KEY CONCERNS

The global economic crisis has had varying impacts on different African countries, depending on the structure of their economies. Most of Africa was shielded from the first round effect because of low financial integration into world markets. SA, Kenya and Nigeria with fairly developed financial markets, were affected by the first round. Declines in trade and remittances were the main channels through which the second round effects were felt in most of the continent. Per capita income in Africa fell last year for the first time in a decade, according to the International monetary Fund. Exports have since rebounded and the UN Economic Commission for Africa expects economic growth to accelerate to 4.3% in 2010 from 1.6% in 2009. However, this does not mean that the problems brought on by the financial crisis have gone away. Growth without poverty alleviation and better distribution is not sufficient, nor can it be achieved without addressing the fundamental structural constraints on longer term sustainable growth and development, which the crisis paradoxically has provided the opportunity to fix. One of the greatest priorities in this regard is the necessity of African states’ improving the business climate and infrastructure. Some estimates indicate that Africa will need some USD 50 billion in 2009 and USD 56 billion in 2010 to bring its economy back to pre-crisis rates of growth. Another USD 117 billion in 2009 and USD 130 billion in 2010 were needed to achieve growth rates consistent with the MDGs.

The challenges that African states have faced include:

- Direct financial contagion, specifically in the form of capital flight from emerging markets, including trade and project finance and associated macroeconomic dislocations.
- Reduced remittances from the African diaspora resident in the developed world. In recent decades these financial inflows have alternately cushioned the ill-effects of macroeco-

nomic mismanagement or underpinned positive structural transformation stories. The absence of such funds exacerbates foreign exchange shortages, dampens domestic growth prospects through reduced consumption and heightens revenue pressures.

• Reduced prices and volumes of major commodity exports, induced by recessionary conditions in the developed world, although this has begun to pick up again especially in emerging markets. This reduces economic growth across the continent, although some countries will benefit from lower commodity prices and hence face less pressure to raise interest rates to curtail inflation. Furthermore, declines in trade could impact severely on many African countries which rely on import taxes (tariffs) to sustain government revenues, especially as intra-African trade is so small. More specifically, Africa faces the threat of a closed global economy as a result of the fear of increased protectionism. Currently ‘protectionism’ takes the form of agricultural subsidies and high tariffs in certain areas along with standards protection covering industrial, consumer, health and environmental regulations. The lack of progress on the Doha Development Round has further compounded these difficulties.

Africa’s key concerns, thus remain:

• Maintaining access to finance, both short-term liquidity and project finance.
• Expanding the resources of the multilateral development banks and the IMF, including regional development banks.
• Encouraging donor nations to peg their ODA payments to Africa at current levels, and not to decrease them.
• Encouraging donors to address conditionalities in light of the obvious fact that the problems African economies now face were not of their own making or policy failures.
• Maintaining the open global economy is in Africa’s best interest. The G20 should push for the conclusion of the Doha round in this regard as well as support the Aid for Trade Initiative as it helps to address supply-side constraints to trade such as infrastructure\textsuperscript{15}

\textsuperscript{15} Kandiero (2009).
However, there are also a number of actions that African states should be taking to ‘benefit from the goodwill of the G20 countries’, as one analyst at the African Development Bank has put it. This includes pursuing ‘domestic trade reforms that support international rules, unlocking opportunities in the regional agenda and increasing participation in the Doha Development Round’.

African countries should redouble their reform efforts in order to ensure they are well-placed for the cyclical recovery. This should extend to building regional economic integration and regional resource mobilisation, in ways that are realistic rather than the haphazard patterns which currently characterise many of these processes.

On the most substantial aspect of global governance, the African Development Bank has emphasised that Africa should advocate for the creation of formal channels to increase its voice and representation in global financial regulation. It is in this context that the Committee of ten was established.

**THE ESTABLISHMENT OF THE COMMITTEE OF TEN**

The Committee of Ten arose from a meeting of African Finance Ministers and Central Bank Governors that the African Union, the African Development Bank and the United Nations (UN) Economic Commission for Africa convened in Tunis on 12 November 2008 in advance of the G20 summit which was called for the first time by President George W Bush, following the onset of the global financial crisis.

The Committee’s mandate was ‘to take stock of the impact of the current economic recession on Africa, secondly to explore such actions derived from the observations that would inform the African Heads of State and thirdly, to make a case for governance reform in the multilateral economic institutions for enhanced African participation.’

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16 ibid.
17 For example creating regional bond markets and/or stock exchanges is politically difficult and unlikely to achieve the required economies of scale. Also, regional development banks may not be well-placed to impose conditionalities on the funds member states access, owing to their being politically embedded in the region.
Essentially, we are charged with ensuring that the African voice in global economic affairs is amplified.¹⁸ (emphasis added) It also acts as a platform for sharing domestic and regional responses to the crisis. In effect it has acted as a consultative body to South Africa on presenting African issues at the G20.¹⁹ South Africa coordinates the Committee, which comprises eight African countries and two regional central banks.²⁰

To date there have been four meetings of the C10: in January 2009 in Cape Town, March 2009 in Dar es Salaam, July 2009 in Abuja and most recently February 2010 in Cape Town. The overriding concern and driver of the Committee of Ten is that Africa should be proactive in identifying pertinent matters to its development and placing them on the table at this crucial juncture when the rules of the international game are being rewritten.²¹

The key concerns for Africa as outlined in a report of the Committee of Ten, titled ‘Impact of the Crisis on African Economies – Sustaining Growth and Poverty Reduction: African Perspectives and Recommendation to the G20’ submitted to the London Summit, were:

- Urgent implementation of all the commitments in meeting the needs of low income countries, and of Africa;
- Adherence to existing aid commitments and additional resource mobilisation;
- Greater policy space (particularly related to the Debt Sustainability Framework);
- Greater flexibility of financial instruments;

¹⁸ | Opening comments to the committee of ten, Trevor Manuel, SA minister of finance, Cape Town, 16 January 2009.
²¹ | Interviews with officials of African Development Bank, Tunis, 8-9 March 2010.
Despite the existence of this consultative body, South Africa as the representative for Africa in promoting an African agenda is still largely contested. On the one hand, government officials affirm that Africa remains a top priority for South Africa in this forum and as a result will be “represented to the max.”

The C10 meeting in February 2010, emphasised that Africa still faced risks as a result of the financial crisis. It was imperative to consider measures to restore growth, which had declined significantly in many countries and thus set back efforts to reduce poverty. The C10 also discussed financial issues arising from the Copenhagen Climate Change Summit. In addition, the C10 has indicated the need to seek better cooperation with other developing countries to strengthen Africa’s position as well as promoting the “Invest Africa” initiative to help rebuild Africa’s economy. As a result, although the C10 remains committed to economic concerns, other global issues are now being brought to the table which will be raised at the upcoming Toronto and Seoul summits later this year. The issue of financing around climate change is intimately connected with the challenge of additional resource mobilisation among African states.

Despite the existence of this consultative body, South Africa as the representative for Africa in promoting an African agenda is still largely contested. On the one hand, government officials affirm that Africa remains a top priority for South Africa in this forum and as a result will be “represented to the max.” In support of this, President Jacob Zuma in his address to the South Africa-United Kingdom Business Forum Seminar in March 2010 emphasised South Africa’s role in promoting the interests of the continent and the greater developing world in the G20. Government has also called for greater African representation at the G20. While previously the G8 had been very responsive to African concerns and president Mbeki’s African agenda,

- Support for enhanced domestic resource mobilisation efforts particularly in respect of fiscal reforms and enhanced revenue collection systems; and
- Greater African participation in the G20 process and beyond.

22 | African Development Bank.
23 | AFDB op. cit.
24 | Interview, Official, Department of International Relations and Cooperation, South Africa, March 11, 2010.
in the current global climate of scarcer resources, this may become harder for SA to execute no matter how sympathetic some members may be to the African cause. This delicate ‘emerging middle power’ role inevitably means the South African government’s actions will attract detractors, in the continent and abroad. Consequently, the South African government’s space to represent national and African interests is constrained and hemmed-in from a variety of angles. Conversely, African governments and stakeholders’ ability to influence the South African government on G20 issues is also constrained.

Thus while South Africa remains the only African state at the G20 table, its position is a difficult one: although it has not been given a formal mandate by the continent to represent its interests, the greater international community tacitly expects South Africa to fulfil this role.

OVER THE HORIZON CHALLENGES FOR THE G20 AND SOUTH AFRICA

Despite the central role it has played in the current global financial crisis, the G20 faces challenges in establishing itself as the key global governance mechanism controlling the international agenda. These challenges, which gave an impact on SA’s positioning and influence within the grouping include:

- Emerging formations within the G20 – The G2 and the G8. There has been much speculation that in the future the core axis for global economic (and potentially political) governance will be the G2 (the US and China).26 This raises important questions concerning how other countries within the G20 should position themselves to deal with this possibility. For example the European G8 members may face increasing pressure to channel their inputs through the EU, with a view to retaining European relevance in decision-making. Similarly other G20 participants may need to contemplate forging alliances with each other in order to counteract the influence of a putative G2. What would this mean for the key issues of importance to South Africa and to Africa, and how should

they position themselves? Similarly, the view that the G8 will remain the central and best coordinated ‘caucus group’ within the G20\(^{27}\) is equally relevant owing to the G8’s common ideational foundations. A related issue is the role that other groupings, for example the IBSA\(^{28}\), BRIC, BASIC\(^{29}\), and KIA\(^{30}\) groupings of states are playing, and can play in global governance issues. The interactions within and between these various ‘caucuses’ is critical to shaping understandings of how G20 decisions will be arrived at and transmitted in the future.

• The mechanics of decision-making processes in the G20. The interaction of these processes with other institutional arrangements and how they might evolve over time will be very significant for the strategies and tactics that smaller members employ to influence the outcomes. Insight into the political economy of decision-making and alliance formation would allow help with targeting South African and African coordination and policy initiatives more effectively.

• Expansion of the G20 agenda. As the global financial crisis abates, so the G20’s economic agenda may expand into new areas. An obvious candidate in this respect is climate change, but further down the track trade, investment and competition matters could, inter alia, move up the agenda. Furthermore, since by definition the G20 summit takes place at Heads of State level an enlargement of the forum’s ambit to include non-economic issues cannot be ruled out. Therefore, the contours of the G20’s future agenda are difficult to predict. Since South Africa is a relative newcomer to the ‘insider’ status accorded it through the G20 summit the country has a serious stake in how these agenda issues are resolved.

\(^{28}\) India, Brazil, South Africa.
\(^{29}\) Brazil, South Africa, India, China – formed to coordinate positions in the climate change negotiations.
\(^{30}\) Korea, Indonesia, Australia. Whilst not a formal grouping per se, the idea of forming such a trilateral grouping is currently doing the rounds in the respective country capitals.
• Effectiveness versus legitimacy. A small (in terms of numbers of states) group formulating key decisions to guide the global economy is always going to be subject to charges of lack of legitimacy. In South Africa’s case the country is the sole African representative, which raises issues about why it was selected and how, and even if it can most effectively represent Africa. To its credit South Africa coordinates the ‘Committee of Ten’, a forum of 8 African countries and 2 regional central banks which meets to discuss G20 issues.31 Furthermore, South Africa participates in various regional and United Nations processes in which African countries are directly represented and global economic governance is actively discussed32, such as negotiations to reform the Economic and Social Council. These ‘multiple hats’ highlight South Africa’s ‘emerging middle power’ role and the challenges it faces in building consensus amongst its neighbours.

• Global imbalances and floating exchange rates. An issue of current importance that is also likely to remain on the G20’s agenda for some time is the matter of resolving global economic imbalances, including the exchange rate issues that it raises. This is an obvious area of discussion in the G2 framework, but South Africa with its floating currency and desire to promote manufactured exports, and other African countries, have strong stakes in influencing the outcome.

• The Financial Stability Board and financial regulation. The G20 summits have resulted in the expansion and formalisation of the Financial Stability Board and an increased focus on financial regulation. Financial regulation poses strategic considerations that are of great relevance to


Notwithstanding SA’s participation in the G20, there is concern that Africa will slip down the agenda, particularly in a post-crisis era. With declining GDPs of some key Western states, and mounting public debts, funding pressures around climate change commitments, aid and investment from the North will not be in requisite volumes, and the focus might fall on countries that are strategically significant.
South Africa and Africa with their concern for expanding access to financial services and ensuring adequate funding for their development agenda. These strategic issues include topics relating to the global institutional arrangements for formulating and implementing effective financial regulation; and the relationship between the incentives created by financial regulation and such development challenges as poverty, unemployment, inequality, environmental degradation, food and energy security.

**THE G20 AND AFRICA IN 2010**

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Furthermore, it is also unlikely that greater African representation in the G20 will be agreed to in the near term. Clearly there are a number of other countries lobbying for admission, including from Europe. However, at this historical juncture, where work has begun on seeking a more equitable configuration of global power, it is also incumbent on Europe in particular to review its (over)-representation in both formal and informal multilateral groupings, and especially at the IMF.

For Africa and South Africa, the C10 will continue to be an important instrument for debating and identifying issues to be put on the G20 table. But the challenge for SA as a relatively minor economic player is to seek partnerships and coalitions with developing and developed countries to promote the continent’s and its own interests.