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SPEECH BY
DEPUTY MINISTER NENE - PROVIDING INFRASTRUCTURE FOR INCLUSIVE GROWTH
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Welcome

Let me thank the organizers for inviting me to make these opening remarks for this development conference on infrastructure and inclusive growth.

I also want to (on behalf of the South African authorities) welcome you to the Mother City and for those staying on for the Development Working Group, I want to wish you very fruitful discussions over the next two days. Time is not on your side, as you are expected to conclude your discussions in order to hopefully have concrete issues to report back to your Sherpas and ultimately to the Leaders, in Cannes at the end of this year. Perhaps your involvement in today's conference will help shape your discussions over the next two days.

The G20 Summit Process began in the depths of the sharpest and most widespread global financial crisis any of us have ever seen that began in North America and Europe, but quickly illustrated how interconnected and interdependent many economies have become.

Countries responded in a number of ways; all aiming to save their economies from regressing from the positive growth trajectory many were facing. In advanced economies, the response went beyond counter-cyclical fiscal policy support, and also involved support for the financial system.

There was no financial collapse in South Africa, and no need for bank 'bailouts'. This was also true in most developing countries, which tended to apply tougher rules on banks than some of the developed countries. Nevertheless, we were badly hit by the sharp contraction of global aggregate demand, growth fell nearly 2 percent in 2009 and we lost many jobs. Like others, we experienced a sharp rise in capital inflows. The Rand appreciated sharply over a prolonged period, and as such this exchange rate overvaluation has exacerbated pressures on our current account deficit and increased our vulnerability to future shocks.

We continue to face a great deal of uncertainty during this current period of adjustment within the global economy. Our economy has, however rebounded and has registered a 4.8 percent growth rate in the first quarter of 2011. While this recovery is stronger than a year ago in South Africa and in most other emerging market countries; its foundations are not yet sustainable; and it is still highly dependent on support from expansionary fiscal and monetary policies.

What helped pull the world away from a potentially deeper and even longer crisis was the cooperation and coordination among G20 members. South Africa particularly welcomed the G20 Heads of State Summit initiative (held for the first time in Washington DC in November 2008), as this helped galvanize cooperation on systemic problems, created a sense of urgency towards making the necessary adjustments amongst countries in order to reduce shocks.

Since the London Summit, G20 leaders have met at least three times to review the global impact and effectiveness of the measures they jointly undertook; to assess progress made towards their shared vision of strong, sustainable and balanced economic growth, and identify those areas where there is a need to redouble their efforts.

Other steps taken include strengthening financial regulation and reforming the governance structures of global institutions. International capital markets were reassured that as a group we are able to have difficult debates and take decisions in the global public interest.

For our part in South Africa as in many other parts of the world, we have set ourselves a three year fiscal consolidation path following substantial fiscal stimulus, driven by a determined key emphasis on employment creation and investment in infrastructure and skills.

The Framework and the mutual assessment process are undoubtedly very useful mechanisms to assess G20 countries' joint efforts to reduce imbalances and uncertainty. However we all know by now that the

Framework tends to be more about studying the current global growth drivers within the G20 membership, and less about seeking additional sources or new growth ‘poles’.

Equally, G20 members are increasingly appreciating that G20 cooperation should not be restricted to issues that only affect the membership. Broadening our thinking beyond systemic and structural issues affecting the global real economy is not only in the global public interest, but should also support our own national objectives for growth and employment. And so this requires us to pose and seek to answer the following questions:

- *How can we improve the institutional environment for growth in developing countries in general, and in low income countries in particular to be part of this effort?*
- *What lessons can we share towards making growth more inclusive?*
- *Do global public institutions serve this purpose and how can we support or redirect their work?*

There are many issues we could be discussing, but some of these are very capably being taken forward by many other institutions. For instance, issues of development aid and its effectiveness will be taken forward later this year in Busan. Similarly, the United Nations is driving a highly effective campaign around the attainment of the Millennium Development Goals.

We thought a great deal about where we could and should make a difference and in 2010, we came up with a Multi-Year Action Plan that represents the sum of these discussions, captured in the Seoul Consensus on Development. I will not describe the 9 pillars of the Seoul Consensus in any great detail here, as I believe that the Seoul Declaration and the related documents have been distributed to you.

In brief, there are nine areas or ‘pillars’ where members think their increased cooperation could make a difference to outcomes in other countries and especially in low income countries:

- Infrastructure development
- Food security and price volatility
- Trade facilitation
- Private investment and job creation
- Human resource development
- Growth with resilience (safety nets and remittances)
- Domestic resource mobilisation (tax systems)
- Financial Inclusion
- Knowledge sharing

In all of these areas, the G20 represents a wealth of experience that can support the development of policy that is sensitive to individual country circumstances.

South Africa is committed to this agenda. We were privileged to co-chair the Development Working Group process in the last six months of 2010 and were pleased with the diversity of ideas and interests that emerged. We, together with Korea have continued to co-chair these discussions during 2011, and have been joined by the current chair of the G20, France, in moving this effort forward.

The President of France has recommended infrastructure, food security and commodity price volatility as key issues for this group this year, and these will be given some emphasis at the Summit in Cannes in November. These are highly relevant to the development challenges and opportunities in our region. We are particularly pleased with the outcome of the G20 Agriculture Ministers and believe that significant advances are possible on the other pillars in the months ahead.

Turning to today’s thematic area, you do not need to be an ‘expert’ to agree that the extent and quality of physical infrastructure is one of the most crucial characteristics *defining development.* In our view, infrastructure is at the center of our efforts as we forge towards achieving an all-inclusive and sustained growth.

As we share views and being on the African continent, it is useful that we remind ourselves of the context that we face. Africa's economic potential has been reconfirmed by the pre-crisis growth and strong rebound. For about seven years, more than forty percent of African countries were growing at or above 5 percent, with many sectors contributing, especially in telecommunications, agriculture, transportation, resources, finance and retail. But our context also reveals that fundamental imbalances and bottlenecks exist in our economies, which have held back our full potential.

Firstly, we share a common dependency on commodity exports and a minerals value chain that uses huge amounts of electricity, leading to high emissions; secondly, we share a common weakness in the way that we use commodity-based revenue for economic diversification and skills development; thirdly, our investment and domestic savings have remained below the levels required for sustained growth; fourthly and perhaps more relevant to today's discussion, we share common bottlenecks and backlogs in logistics, energy infrastructure and skills, which contributes to higher costs.

Finally, our ability to increase regional interconnectedness and trade; reduce constraints on productivity in agriculture; transform towards green economies all lie at the center of our inability to create a viable environment for private sector investment.

While these four factors are not necessarily unique to Africa, they do point to the need for all of us to develop or seek solutions that in the words of Justin Lin, recognizes the move to the "new-new normal" where the developed countries can create incentives in low income and developing countries to "digest" the excess capacity in developed countries. Justin goes on to identify infrastructure development in both advanced and developing countries as the catalyst to this "new-new normal hypothesis".

As South Africa, we are pleased with the new concerted and coordinated actions to transform the state of infrastructure in Low Income Countries, particularly in Sub Saharan Africa; and that this effort has found its way back to the top of the international policy agenda.

There are flagship publications, new websites and a variety of platforms to share information and sustain advocacy on the production of key infrastructure. I understand that in the days ahead the G20 Development Working Group will discuss a number of additional ideas and options to overcome information asymmetries.

The purpose of this discussion today is to contribute to the thinking of the G20 members on how to use their influence to address the question of the under-provision of infrastructure, particularly in Sub Saharan Africa.
As we all know by now, there does not appear to be a shortage of cash in the global economy, it is just not going to where it is most needed, and can generate the most productive returns. The G20 High Level Panel on Infrastructure has been tasked with thinking about why this is the case from their broad experience in their respective fields, and I would like to also thank the members who have travelled for this meeting for joining us.

It is always useful as a policy maker to have world experiences presented to you and benefit from a knowledge or information exchange environment. Today's discussion is meant to do exactly this, i.e. to hear views from a diversity of experiences.

I would like to thank all of you who have travelled a great distance to share national experience with us, particularly participants, speakers and discussants from developing countries who have recent experiences of what does and does not work in different contexts.

The government of South Africa and our partners in this conference, the DBSA and AFD will be satisfied if the lessons shared today, can help shape the discussions that will commence tomorrow in the Development Working Group.

Thank you