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Keynote address

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Representatives of civil society including labour and research institutions, academia and the media;

Ladies and Gentlemen,

Thank you for this opportunity for a discussion with you on how the G20 can contribute to Africa's economic growth and development. At the outset, I would like to congratulate the Russian Federation for its leadership and energetic endeavours to develop the *St Petersburg Action Plan.* I also welcome our Australian colleagues as the new chair of the G20 and wish them well over 2014 as we all work towards stabilising the global economy and returning it to inclusive growth and more job creation, particularly for young people across the world.

Having been created at a ministerial level during the late 1990s in response to the Asian crisis, the G20 took centre stage ten years later when the American financial crisis struck and resulted in the great recession. The first two years after the onset of the crisis marked the pinnacle of the G20's effectiveness: with the G20's leaders deciding to intervene collectively in the banking sector, of the US and the UK in particular, with speed and large resources. However, this decisiveness was not seen elsewhere and the financial crisis created sovereign debt crises, large scale unemployment and a deep recession.

The big emerging market (EM) economies became important locomotives of growth, contributing some 50% of global growth. Africa's growth was fairly resilient during these years. Capital flows to the EMs increased substantially leading to sharp overvaluation of currencies, including in Brazil, Korea and South Africa. Later, there were concerns about

Europe splitting, about the stability of the global financial system and in particular about European banks. Over the past year, some of these concerns have been assuaged. But then new uncertainties and anxieties emerged.
Most major economies remain under pressure from the stubborn remnants of the 2007/2008 financial crisis. Europe's inability to adequately and resolutely address its downside risks and related fragility, the spill-over effects of the monetary policies and actions of some of our global partners, the inability of many governments to successfully drive the implementation of the growth-inducing and rebalancing reforms, have only exacerbated the challenge. This is the time when policy debates need to converge and cooperative actions are urgently needed.

The G20, the IMF and World Bank, our own multilateral development banks (MDBs) on the continent - the African Development Bank and the many fine sub-regional banks on the continent - are therefore critical instruments in our hands, to be used to foster actions to stabilise economies and stimulate growth.

THE ST PETERSBURG ACTION PLAN

When we met recently in St Petersburg, the G20 adopted an Action Plan. This was the assessment of the challenges facing the global economy:

- " Weak growth and persistently high unemployment, particularly among youth, and the need for more inclusive growth in many economies;
- Financial market fragmentation in Europe and the decisive implementation of banking union;
- Slower growth in some emerging markets, reflecting in some cases the effect of volatile capital flows, tighter financial conditions and commodity price volatility, as well as domestic structural challenges;
- Insufficient levels of private investment in many countries, in part due to continuing market uncertainties, as well as internal rigidities;
- High public debt and its sustainability in some countries that need to be addressed while properly supporting the recovery in the near-term, especially in countries with the highest actual and projected debt-to-GDP levels;
- Volatility of capital flows as growth strengthens and there are expectations of eventual monetary policy recalibration in advanced economies;
- An incomplete rebalancing of global demand; and
- Continued uncertainties about fiscal policy deliberations".

On this basis, the Action Plan calls for a range of measures to be implemented:

> "We are committed to strengthening the foundations for long-term growth through implementing ambitious and targeted reforms designed to ensure fiscal sustainability, boost investment, increase productivity and labour force participation, and address internal and external imbalances".

Each of the countries committed to measures they would implement. South Africa for example, undertook to resolve its energy constraints (which are a brake on expansion) by starting the process of building a third coal-fired power plant, and authorising shale gas exploration in a responsible and environmentally-friendly way; paying better attention to our educational system and skills development needs; centralising the prudential supervision of financial institutions; and enhancing the protection measures for financial consumers.

The first contribution that G20 countries and the G20 as a forum can make to African growth, job creation and development, is to implement the *St Petersburg Action Plan.* This will be a way to give concrete meaning to the ambition the G20 set for the implementation of a framework for strong, sustainable and balanced growth. It will create a constructive and supportive global environment for African economies and peoples to build on their recent successes, but also provide the world in the next decade or so with a boost to global demand, trade and employment.

However, the prospects of coordinated action by all the significant economies of the world are not particularly optimistic.

GLOBAL STABILITY AND INCLUSIVE GROWTH

I am sure you are aware of calls we have been making in the G20, to emphasise policy actions that are facilitative of a stable global environment. Monetary policies and actions, and fiscal and macro-economic policies of other systemic economies are of relevance to us not only due to their impact on global economic stability, but because they have immediate implications for our economic performance. At the same time, some of the fiscal and monetary policies of significance to us can only yield results if implemented by major economies. This I believe will create the conditions for a virtuous cycle to be triggered.

Examples of note are policies aimed at strengthening the regulatory framework of the financial sector, regulation and oversight of the systemically important financial institutions (SIFIs), actions against the Non-Cooperative Jurisdictions (NCJs) and of late, actions required with regards to Base Tax Erosion and Profit Shifting (BEPS), a matter I will return to.

For developing countries, the G20 is a significant and strategic platform for (i) pursuing engagements on spill-overs**;** (ii) building strong, sustainable and balanced growth**;** (iii) strengthening the IFIs to better respond to the risks (before they turn into crises) across all regions**;** (iv) overseeing the implementation of the reforms of the International Monetary System (IMS) and the financial sector and ensuring that these reforms have no unintended negative consequences on our economies**;** and (V) enabling a fair recovery for all including labour, LDCs, and other affected parties. Addressing some of these major challenges and conditions in the global economy, particularly in our major trading partners, could positively enhance Africa's growth and transformation.

AFRICA'S GROWTH

Sub-Saharan Africa (SSA) is the second fastest growing region in the world. The continent's average growth of gross domestic product (GDP) is projected at 4.8% in 2013 and 5.3% in 2014. In many respects this growth is a reflection of Africa's peace-dividend, the results of the hard-won struggles of its peoples, supported by the international community. The IMF World Economic Outlook (October 2013) projects continued dynamism in SSA.

Yet we know and must acknowledge the downside too: many economies remain overly dependent on commodities, and the pace of industrialisation is hampered by poor infrastructure, poorly targeted policies and sometimes short-sightedness. In addition, inequalities are still very deeply entrenched in some countries; and intra-Africa trade is underdeveloped.

Through their work in recent times, the IMF, UNECA and the OECD have emphasised the need for structural transformation to propel diversified and integrated economic structures that are resilient to external shocks, and to enhance job creation and human development.

However, African policy makers are keenly aware of the necessity to initiate policy actions that fundamentally change these factors and create the initiatives which will lead to sustainable development. In other words, daily practice is reflecting the reality that while external conditions and policy actions are important enablers, domestic decisions and actions are vitally important.

G20 AND THE AFRICAN AGENDA

South Africa engages in numerous initiatives through which we consult and coordinate with our colleagues in the regions on issues requiring concerted attention. Over the past few years Africa's participation in the G20 has also been enhanced. Two seats have been extended to the continent, and taken up by the African Union and NEPAD. As a result of this dispensation (that sees Spain and ASEAN also now participating in the G20), Africa now has a louder voice on the G20 table if it chooses to use it.

Through a concerted effort, not only with African institutions but other partners and countries with an interest in Africa's development, the G20 has pronounced on numerous actions in support of Africa. These have included undertakings to support the following:

- Replenishments for the concessional lending facilities of the multilateral development banks (MDBs);
- Calls for investment in infrastructure and for MDBs to be more responsive;
- On food security, a call for investment, research, facilitation and policy reviews;
- Enhanced domestic resource mobilization and trade facilitation, both within and across regions;
- Increased accountability, transparency and better governance and fairer rules in the global system; and
- Bringing attention to illicit financial flows and their impacts on development and supporting measures to address including through endorsement of the recovery of stolen assets.

On the last matter, the Africa Progress Panel led by former Secretary-General of the United Nations, Kofi Annan has estimated that the amount Africa loses through illicit financial flows is astronomical – almost double the amount that it receives in development aid. Researchers at the University of Massachusetts found that illicit capital flows from 33 African countries between 1970 and 2001 were as much as US$814bn in constant 2010 US dollars. Regrettably, the problem has been getting worse. Think how much African governments could do with this extra tax revenue. Africa could be a fundamentally better place, with more schools, more infrastructure and more economic activity. Without the tax that should be coming from corporates, governments are forced to raise tax rates on individuals or cut spending.

The Development Agenda is an important component of the work of the G20 which will have long term positive effects on the African continent. Among the priority issues on this agenda are:

- Food security
- Financial inclusion and remittances
- Infrastructure development and financing

- Human resources development, particularly skills development and training and
- Domestic resource mobilisation.

Whilst we have been reasonably successful in elevating African issues to the G20, the implementation challenges may lie primarily within the region. Whilst Africa is now on the geopolitical and economic map, what is required is greater cohesion and assertiveness from us to enhance and advance our collective interests.

In fact, we need an African agenda for global action – actions which will help transform African societies and economies and enable Africa to contribute to high global growth, greater inclusivity, elevate billions from poverty and create millions of highly skilled and innovative African youth.

G20: IMPERFECT, BUT RELEVANT

We all recognise that despite its weaknesses and imperfections, the G20 is significant as a platform for policy debates and decisions. As indicated earlier, the G20 was successful in facilitating coordinated actions to respond to the 2008 financial crisis: In addition:

- It has supported the reform and recapitalisation of the IFIs, leading to improved support to developing economies amongst others during the time of the crisis;
- It has built consensus and enabled the resourcing of the IMF to enable support to the Euro-area and avert the deepening of the crisis faced by the region;
- It has facilitated an encouraging process to consider what can be done to enhance the development in the LDCs;
- It has elevated and successfully set up measures to address the taxation challenges;
- And it continues to be a useful platform for forward looking policy reforms addressing both short- and long-term market deficiencies including commodity prices volatility, mandating the Financial Action Task Force (FATF) to do more to address financial flows.

Today however, the G20 faces challenges of building consensus on the pro-stability and pro-growth policies, and of implementation. This is partly because some of the proposed reforms are hard to implement and require strong domestic support and political leadership. Another reason for the difficulties is that the fundamentals are generally weak in many countries, and many find it difficult to think beyond their own domestic economies. The G20 agenda has also broadened, for very good reasons. This has however reduced focus on the difficult issues that matter, and impacted negatively on delivery of commitments.

Some of the most challenging areas for the G20 are:

- Building consensus on growth stimulation and debt management;
- Rebalancing the economy (regional and global level);
- Exchange rate policies and currency management in the case of capital flows;
- Implementing rules that strengthen the financial sectors and improves liquidity;
- Implementing structural reforms to unlock growth and address jobs crisis; and
- Improving multilateral trade and retracting from protectionism.

Some of these challenges are reflected in recent public policy discourses.

a) The Fiscal austerity vs Growth stimulation debate

Recent debates in the media provide insight on some of the challenges regarding consensus building in the G20. One of the debates is about the choice between fiscal austerity and growth stimulation. This debate has been an intractable obstacle to further collaboration on fiscal policy. Put simply, some argue that the global economy faces a shortage of effective demand. The correct response to this problem would be further fiscal stimulus, and monetary stimulus, where possible.

Others respond that debt levels are too high and are thus a threat to further growth. Austerity is best, since high debt levels are the cause of uncertainty. They argue further that as prudent fiscal policy takes effect and debt levels decline, investors will gain more confidence and increase investment, while consumers will begin spending.

As in any such argument, the truth lies somewhere in between the two views. Some countries genuinely have no fiscal space left and they have no option but to cut back on government spending and raise taxes. But the last three years have not been kind to the austerity argument. The intellectual foundation of the policy has been undermined, as key academic work purporting to prove a link between high levels of debt and slower economic growth was shown to be based on weak statistical analysis (and one famous Excel error). The unfolding of the European crisis strongly points to the reality that the growth dividend of austerity has failed to materialise.
This debate may seem far removed from African interests in the G20 but unfortunately it is not. If countries with fiscal space had implemented more expansionary policies, the global economy would probably have grown more quickly and there could have been greater demand for African exports. Instead, we are yet to see a sustained recovery and this means that growth in Africa is lower and fewer jobs have been created. The problem is even more acute for Africa because of the policy orientation of important trading partners.

Despite the best efforts of the Russian Presidency, this argument was not resolved in 2014. The result was that there was little collective action on growth. G20 political leaders need to find a way to break out of this deadlock. In addition, as we move into 2014, the standstill on debt ceiling will reappear on the US and world stage and this needs to be addressed as well.

b) Base erosion and Profit Shifting (BEPS)

A second area of concern and debate is around the erosion of the tax bases of countries through the shifting of profits and withholding of taxes due. This obviously has corrosive effects on the economies of affected countries, something which the global economy cannot tolerate in these difficult times. Unfortunately many private companies have found ways to bend the rules to pay as little tax as they can. Some companies use international tax treaties to claim deductions in more than one country, and manipulate their status to their financial advantage. Some multinationals transfer their headquarters and their intellectual property to low tax jurisdictions. In recent years we have seen a number of companies admitting that they face very low effective tax rates, a situation that drove London's *Financial Times* to opine that for multinationals, paying tax was a "largely voluntary gesture."

Important work is being done to develop global standards around Base Erosion and Profit Shifting (BEPS) and this is one of the areas where the G20 has made substantial progress in 2013. G20 economies agreed to establish automatic exchange of tax information amongst themselves by 2015 and endorsed the aspiration of automatic exchange becoming a global standard. South Africa has gone further than this commitment and will be an early implementer of the standard alongside the Australia, France, Germany, Italy, Mexico, Spain and the UK.

But the G20 has also recognised that the benefits of automatic exchange of tax information should not be confined to members of the G20 alone. The St Petersburg Declaration commits G20 Leaders to making the new standard attainable by all countries, including low income countries (LICs). G20 officials need to identify how to make this goal feasible and report back to leaders at the next G20 Summit. I have already spoken about the impact of illicit financial flows on African economies, and the need for strong bulwarks against base erosion. The standards and best practices emerging through the G20 can serve as a benchmark against which African countries can measure and improve their tax regimes. Moreover, more support should be given to countries striving to strengthen their tax systems, strengthen revenue collection and promote tax information transparency. African countries need to work together to strengthen these frameworks so that they do not fall victim to base erosion and profit shifting, and so that all companies pay the full taxes that owed by them.

CONCLUSION

In conclusion, I would argue that the G20 remains a relevant forum, one which Africa can leverage to its strategic advantage. There are some important processes which could have a significant impact on the continent. The participation of the African Union and NEPAD provides an opportunity for African economies of all sizes and strengths, to express their needs and get their issues placed on the table. As South Africa, we would like to promote Africa’s interests because it is the right thing to do. The faster Africa grows and its peoples prosper, the better it is for global prosperity. I wish you well in your discussions at this conference and look forward to your ideas on how to use the G20 as a lever for Africa’s growth and development.