

SOUTH AFRICAN PERSPECTIVE ON THE G-20 LONDON SUMMIT

1. We are living through the most serious financial crisis in generations. It has given rise to a synchronized global recession which threatens livelihoods, jobs and social cohesion across the globe. On the African continent, sustained progress towards the Millennium Development Goals could be reversed, and the crisis will pose new threats to democracy, peace and progress.
2. Since the last G-20 Summit, governments have taken actions across a broad front, inspired by the commitments we made together on November 15. However, these actions have not yet achieved the needed breakthrough. Greater international cooperation and collaboration is now required. Working together, we must respond to the immediate crisis and build the foundation of a sustainable, balanced and inclusive recovery into the future.

A GLOBAL CRISIS

3. In the decade of economic growth that preceded the crisis, outstanding achievements were realised in the context of stronger global integration. Millions were lifted out of poverty as many poorer countries registered high rates of growth and advanced their developmental goals. On the African continent the fastest growth rates since independence brought the Millennium Development Goals within reach and created real hope for a better future.
4. But these achievements were built upon an unsustainable economic model. It was a model premised on the view – now shown to be erroneous - that unregulated markets are stable and - if left to themselves - will generate socially optimal outcomes. Instead, the risks grew and the model became increasingly unstable, as the mutually reinforcing elements of the current global crisis combined and fed each other. These included:
 - **The financialisation of the global economy.** Transient holdings of complex and opaque financial instruments, freed from effective regulatory constraint, generated high private rewards out of proportion to their social productivity. Consequently, financial sector's primary function of mobilising and allocating capital efficiently to support investment for real economic growth and development, was seriously compromised.
 - **Unsustainable global imbalances in savings and investment.** Savings gathered from the industrious parts of developing world, with high productivity growth and low levels of consumption, was channelled into consumption and government deficits in the developed nations. Instead of being reinvested to build productivity and support human development, these vast capital flows stimulated and fed financial excess and asset price bubbles in the rich world.

- **Growing income inequality within nations.** Inequality has widened in an era of unprecedented prosperity. Stagnating wages, high levels of unemployment and poverty undermined the basis of effective demand. As a consequence, levels of consumption remained far too low in some parts of the world, while in others stagnating wages spurred the demand for credit to sustain consumption
 - **Weak economic cooperation between nations.** Collective global action has been increasingly hamstrung by institutional and diplomatic inertia. Despite growing integration of economies, the institutions of multilateral collaboration have become fragmented and ineffective. As evidence of the risks mounted and it became clear that the trajectory of global growth was unsustainable, national authorities were unwilling to rise above national interest and global institutions were unable to forge a collective response.
5. The tipping point came when asset price bubbles burst, generating severe financial stress in the developed world. We now face a global syndrome of mutually reinforcing crises, each of which is unprecedented in their severity:
- **A systemic crisis of finance:** The flow of credit remains dangerously weak, as uncertainty regarding distressed assets prevents the restoration of market trust and the solvency of institutions is questioned. In many developed countries, the weak supply of credit and asset prices declines are choking off consumption and economic activity – feeding back into financial weakness. The crisis will remain unresolved until the legacy of past excess is expunged from the financial system. Developing countries face acute and growing financial dangers, which are intensified by the spill-over effects of forced responses in the developed world.
 - **A synchronised global recession:** Developed countries face the deepest, broadest and longest recession of the post-war era. Over-investment during the boom years is now excess capacity in the real sector, as negative wealth effects and corporate deleveraging curb demand. Rising unemployment and wage deflation threaten to feed into a vicious deflationary cycle. For the developing world falling commodity prices, slowing export demand, huge terms of trade shocks and tight financing conditions are curtailing growth and throwing millions out of work and into poverty.
 - **A social crisis:** Job losses could reach 50 million in 2009, with the burden falling on the most vulnerable – women, the youth and migrant workers. The World Bank estimates that rising unemployment and declining wages and remittances will push 46 million people into poverty in 2009. The ILO believes that the immediate crisis could add over 75 million people to the ranks of the working poor, with most of the increase in South Asia and Sub-Saharan Africa. Once they set in, these developments will undermine social cohesion and take years to reverse.

A GLOBAL RESPONSE

6. A coordinated and credible global response is now needed even more urgently. As the crisis deepens and challenges spread from finance to the real economy, from the developed world to the developing countries, so must the corresponding breadth of our collective answer.
7. This global response must address the immediate dangers posed by financial paralysis and global recession, particularly the threat of contagion to emerging

markets and developing countries. The Washington Summit built a solid foundation for action, including a combined stimulus to demand, support to developing countries, a standstill on protectionism and far reaching regulatory reforms. London must see the culmination of our actions and deliver on these commitments.

8. But a global recovery on a sustainable basis requires collective action beyond the horizon agreed in Washington. Therefore, the London Summit must turn our attention to the road ahead: building a sustainable, inclusive and balanced trajectory of global economic growth. This is necessary not only because the crisis is an opportunity for change that is too important to be wasted, but also because short-term responses dictated by national necessity must not be allowed to block the avenues for our collective advancement in the future.
9. South Africa therefore believes that the G-20 London Summit should agree on a plan to restore global growth development based on four pillars:
 - I. **Stabilise global finance**, by unblocking credit and taking decisive, coordinated and temporary national action to restore confidence in the financial system.
 - II. **Counter the global recession** by boosting domestic demand through coordinated fiscal and monetary policy actions that take account of medium term sustainability and ensuring that the global economy remains open for trade and capital flows.
 - III. **Deploy resources to support demand and sustain investment in developing countries**, in order to prevent a further deepening of the global recession and provide a more effective boost to counter-cyclical efforts on a global scale. Resources must also be mobilised to respond to the incipient development emergency including, the growing crisis of unemployment and poverty - particularly in Africa.
 - IV. **Lay the foundation for a sustainable recovery** on the basis of a more balanced and inclusive world economy premised on a stronger and more equitable system of global economic multilateralism. This will require consideration of the social and economic architecture of a sustainable recovery by rebalancing global demand, strengthening social safety nets and protecting employment.

STABILISING FINANCE

10. In part we face a crisis of confidence, and the G-20 must help to rebuild trust. Building confidence in the future includes making the world safe from the potential of disruption caused by unregulated finance. A new regulatory and supervisory architecture must balance innovation and responsibility and aim to prevent a recurrence of those aspects of the crisis which are rooted in financial excess.
11. The most urgent priority must be decisive, coordinated and time-bound interventions by national authorities to deal with insolvent institutions and address the toxic assets that still pose a threat to financial systems in the USA, UK and several European states and continue to constrain the extension of credit globally.
 - **Action should be decisive.** Insolvency must be resolved urgently through strong public sector action, and governments must not shrink from taking over failing institutions.

- **Action should be coordinated.** Emerging markets are paying the price of adverse capital movements and other spill-overs as a consequence of interventions that are announced without forewarning. Its time to establish stronger mechanisms for sharing information and collaborating on financial sector interventions that have global repercussions.
 - **Action should be temporary and reject financial protectionism:** Open global capital markets must not become the victim of short term actions taken out of vital necessity. Clear exit strategies should be made explicit and global collaboration planned to unwind positions that national authorities have taken in their financial systems. New and stronger mechanisms to monitor and report on financial protectionism should also be considered.
12. Over the longer term, we must build confidence around a new global financial architecture. This requires closer cooperation of national authorities. But a system based solely around the coordination of national regulators will, in times of crisis, face the danger of collapse, as national authorities scramble to protect their own interest.
13. There is therefore an obvious need to rationalise the array of institutions and country groupings concerned with the various aspects of international financial regulation and supervision, and to strengthen the multilateral centre. This rationalisation should strengthen institutions that have broad multilateral legitimacy and endow them with the flexibility, expertise and responsiveness to play a leading role in a new global financial system.

COUNTERING RECESSION

Macroeconomic Policy

14. As the crisis unfolded, the first line of defence was monetary policy. Central banks have acted aggressively to bring down interest rates, in many cases close to zero. Given the limitations now faced by traditional monetary policy many are entering the largely uncharted waters of unconventional policy interventions, such as credit and quantitative easing.
15. Fiscal policy must now take the lead in boosting demand, especially in developed economies. The IMF has recommended a fiscal stimulus equivalent to 2% of global GDP and South Africa believes that G-20 members as a whole could do more to meet this objective. However, it is critical that the longer term objectives of fiscal sustainability are not undermined, as our solutions to the current crisis should not recklessly sow the seeds of the next. It is also important to examine the varying degrees of policy space and the effectiveness of fiscal action in different settings, so that global goals are interpreted in a manner that reflects national circumstances.
16. In the current fiscal year South Africa's discretionary fiscal measures amount to at least 1.8% of GDP and increased capital expenditure by state owned enterprises will add a further 2% to our fiscal effort. Interest rates are also on a downward trajectory. However, as with many developing countries, the policy space available for a sustained fiscal expansion is limited. Current conditions on global markets have seen a significant increase in financing costs, and the volume of sovereign debt issued by large developed countries could crowd out emerging market issuers. Monetary policy is also constrained by the need to balance the imperative of demand stimulus against the risk of accentuating capital outflows.

17. Therefore, while South Africa stands ready to contribute to the collective global effort to boost demand, we believe that a coordinated global response requires rapid and innovative means to support counter-cyclical responses in developing countries.

Countering Protectionism in Trade and Finance

18. A second element in preventing a worsening of the recession is action to defend open markets and prevent a cycle of protectionist responses. The G-20 needs to maintain openness, defend the multi-lateral, rules-based trading system and underscore the developmental objectives of the Doha trade negotiations.
19. G-20 Leaders made well-known commitments at their last Summit. It may be that G-20 countries have complied with the letter of this commitment, but their adherence to the spirit of their declaration is in doubt. Virtually all G-20 members – with South Africa among the few exceptions - have introduced new policy measures with trade distorting or protectionist consequences.
20. Tariff increases comprise a third of these measures, while a number of G-20 members have introduced new export subsidies. But the most significant actions have been large increases in state support to targeted economic sectors and industries. For instance, new subsidies proposed for the auto industry have grown to almost \$50 billion. In general, developed countries have relied on subsidies rather than border barriers, while developing countries have more often resorted to tariffs reflecting their weaker fiscal base and thus greater dependence on non-financial measures.
21. South Africa agrees on the importance of an early conclusion to the Doha negotiations, but the lesson of the Washington Summit is that unrealistic timetables are a risky strategy. Rather than establish a deadline or repeat our commitments on protectionism, the London Summit could more usefully re-affirm the basic objective of the Doha Development Round, which is to rebalance the global trading system so that it no longer favours the most developed countries. A reaffirmation by Leaders of the need to place the needs and interests of developing countries at the heart of the Doha work programme would give significant momentum to a conclusion of the Round.
22. G-20 members should also commit to stronger and more stringent monitoring of the commitments we made in Washington. We should invite the WTO to work with other international organisations to report on a quarterly basis on trade distorting measures announced by members of the Group, and other large economies.

RESOURCES TO SUSTAIN GLOBAL GROWTH AND DEVELOPMENT

23. Not only are emerging economies home to the majority of the world's poor, they are also the only counterweight to declining global growth. Over the last decade they have functioned as the engines of global expansion, and in 2009 they will be the only sources of growth. The danger of financial contagion to emerging markets resulting in a sharp further sharp contraction of global growth is the largest preventable risk facing the global economy today.
24. Such a scenario – where balance of payments and fiscal constraint force developing countries into a pro-cyclical response, would trigger a vicious spiral, further undermining growth in advanced economies. Conversely, the marginal benefits to global growth of stimulus directed at developing countries far outweighs the returns

that are likely from the developed countries¹. This is because counter-cyclical responses and infrastructure investment can be more effectively utilized in developing countries, yielding greater returns for global growth and positive feedback to advanced economies.

25. At the same time, many developing countries face a development emergency. Social safety nets are thinner, while the limits of debt sustainability constrain effective responses. Action to boost social spending, create employment, sustain infrastructure investment are vital to the future. Renewed efforts are required to keep us on track towards the Millennium Development Goals, cognisant of the reality that poverty anywhere constitutes a danger to prosperity everywhere.

26. Resources are required in four areas:

- **Balance of payments support** in the case of a sudden stop of capital flows. Lending capacity and instruments must be of a quantity and quality that can effectively backstop confidence in developing countries. Estimates of the size of resources required range from \$500 – \$1,000 billion. South Africa welcomes the proposals currently on the table to boost the IMF's resources, and believes that the Fund's new approach to lending instruments and conditionality frameworks goes a long way towards meeting the needs of development countries.
- **Counter-cyclical policy and investment financing.** It is estimated that \$150 billion may be required to support additional financing needs in the current fiscal year. Clearly Multilateral Development Banks (MDBs) have a leading role to play in mobilising and deploying these resources. However, institutional inertia continues to hamper innovative responses to this new role. South Africa supports an urgent review of the resources and instruments available to the African Development Bank and other MDBs to respond effectively to the crisis and fulfil their new counter-cyclical obligations. More flexibility by the IFIs on how they implement lending conditions and the associated pro-cyclical consequences also needs more consideration.
- **Trade finance, roll-over risk and to domestic banking crises:** Should financial contagion lead to domestic financial crisis, developing countries will be unable to resort to most of the innovative responses engineered in the developed economies. The IFC, the African Development Bank and other agencies has moved to address the gap in trade finance and South Africa supports these initiatives.
- **Boosting concessional support to low income countries:** The World Bank has proposed that 0.7% of fiscal stimulus packages be earmarked for the vulnerability fund. The IMF has called for a doubling of the Fund's concessional resources. Commitments to both these initiatives would be important outcomes of the G-20 London Summit.

27. Special attention must be paid to ensure that all these elements are realised on the African continent. African countries remain committed to the implementation of sound

¹ Institute of International Finance calculations indicate that if – instead of falling by \$165 billion this year – net capital flows to emerging markets were restored to the average of recent years (\$500 billion), significant benefits would accrue to both emerging and developed economies. An addition of \$350 billion in net capital over the next year and half could boost growth in emerging economies by up to 2 percentage points, and meaningfully offset the contraction in developed economies. Moreover, Justin Lin, the World Bank's Chief Economist argues that "Developing countries have more of the type of projects that remove bottlenecks to growth than developed countries. High-return shovel ready opportunities may be limited in developed countries where a large share of effective investment and consumption demands have already been realized under the market system (especially thanks to the easy credit in the previous years). By contrast, they tend to abound in developing countries."

economic policies and the establishment of strong institutions that are consistent with their long-term development goals. But global action is needed to ensure that the hard won gains of the last decade are preserved and that conditions for future progress are restored. In particular, Africa will require:

- Resources to sustain investment, especially in infrastructure. The financing gap is estimated at \$50 billion in 2009 and \$56 billion in 2010.
- Long made and oft-repeated commitments to increase aid to Africa must be delivered quickly. This includes the G8's Gleneagles commitment to double annual aid budgets to Africa to \$50 billion by 2010.
- New and additional resources must be unlocked to enable African economies to sustain growth and maintain social safety nets through strong counter-cyclical measures. In this regard, the African Development Bank must have the resources, instruments and will to support continued growth and development.

28. At minimum, \$1,000 billion will be required to finance counter cyclical spending, sustain infrastructure investment, enhance social safety nets and backstop confidence in the balance of payments of developing countries. This investment is vital to sustain growth and development in the global economy. Therefore, all financing options must be on the table. In respect of the IMF, this includes bilateral borrowing, temporary multilateral arrangements (such as the New Arrangement to Borrow), and the allocation of new Special Drawing Rights.
29. At the same time, the urgency of the situation is no reason to delay consideration of a permanent increase in the Fund's resources through a general quota increase. The crisis has clearly demonstrated the need for a well endowed global Fund, able to respond effectively in times of crisis. Shareholders should also support the recapitalisation of the multilateral development banks.
30. South Africa stands ready to make whatever contribution it can, within its means, to support the G-20's collective commitments. This includes participation in an expanded New Arrangement to Borrow and contributions to the recapitalisation of the African Development Bank.

A FOUNDATION FOR THE FUTURE

31. Given the systemic nature of the crisis, and its roots in a flawed model of globalisation, it is unlikely that a recovery can be achieved without collective global action to address the weaknesses of the past. As a first step, the G-20 should begin to work on a plan for a sustainable path out of the crisis premised on collective action to build a more balanced and inclusive trajectory of global economic growth.

Addressing global imbalances

32. A key element underlying the crisis was the build up of unsustainable global imbalances. Preventing a future crisis and working for a sustainable recovery will therefore require a global economy that is more balanced. Rather than financing excessive consumption in the rich world, surplus savings must invest in productivity, development and growing consumption by the world's poor.
33. Trade imbalances reflect underlying economic structures that are in need of reform. Absorption of resources will need to rise in China and other surplus economies, while consumption growth in the US and other rich countries must moderate. Rising wages

are required to boost consumption in the surplus countries, while a flattening of earning differentials and an end to the culture of debt-fuelled consumption is required in many western nations.

34. One factor behind the build up of global imbalances was the perceived need for developing countries to accumulate precautionary reserves in order to insure themselves against the type of crisis that took place in 1997-1998. A sustainable rebalancing of demand therefore requires the creation of credible insurance mechanisms that are built on multilateral financial institutions which enjoy the legitimacy and ownership required to act as trusted stewards of global public resources.
35. Reform of global institutions is therefore urgently required, not least so that further consideration can be given to the creation of an international monetary system that removes incentives for the build up of reserves, encourages stability and serves the needs of global growth and development.

Building a new economic multilateralism

36. Stronger institutions for international partnership are required, recognising that global cooperation involves both engagement between sovereign nations and increasingly robust commercial and non-governmental networks. London must deliver tangible progress and bold commitments towards a new economic multilateralism. Without such action we will delay establishing the conditions for sustainable, inclusive and balanced global growth.
37. This means reassessing the role and contribution of a range of global institutions, including the UN system, the ILO as well as the Bretton Woods Institutions. The G-20 can play a useful role in facilitating consideration of these issues, which include the future of the global monetary and financial system and the type of institutions that would support global economic cooperation. However, by their very nature, these matters can only be decided in more inclusive fora that have broad acceptance. Certainly, we cannot afford a situation where established, treaty based organisations which provide the foundation of multilateralism are eclipsed by self-selected groups.
38. As a first step down a path that renews our commitment to a shared global economy built on mutual accountability and partnership, the G-20 London Summit must send clear and unambiguous signals on the reform of the International Financial Institutions. The most important signals need to come from the USA and Europe – the major shareholders in these bodies. They must take the opportunity provided by the London Summit to make clear, credible and unambiguous commitments to:
 - Enhancing the voice and representation of developing countries, including the poorest, through an urgent review of quota shares in the World Bank and IMF
 - Rebalance and reconfigure the composition of the Executive Boards to address the under-representation of emerging markets, while ensuring that low income countries have adequate voice.
 - Lowering the voting thresholds on critical decisions and extending double majorities to a wider range of decisions, with a view to ensuring that decision-making processes build consensus and command the support of the majority of members.

- End the practice of appointing heads of institutions exclusively from Europe and the USA, and commit to a transparent process - open to nationals of all countries –for the next round of appointments.

39. We should also consider greater police engagement in IMF's strategic deliberations. This would include a greater role for the G-20 and the activation of a Council of Ministers - as envisaged in the Articles of Agreement, albeit on the basis of a reconfigured composition - that provides strategic and policy direction, and more openly discusses macroeconomic and financial policy coordination. These reforms would be complemented by a new approach to the Fund's governance arrangements that builds accountability, representivity and diversity.

The Social Architecture of Recovery

40. The model of economic globalisation that led to the current crisis must be addressed. A new and inclusive social architecture of globalisation should drive the recovery. For too long we have allowed an exaggerated faith in market incentives to dominate social regulatory imperatives. The imperative of financial gain has overwhelmed the discipline of public purpose and accountability. Pursuit of corporate advantage has won out over the promotion of competitive fairness. It is time to construct a shared vision of a new model of the global economic order that builds on the dynamic impetus of market forces, but tames the corrupting influence of power and self-interest.

41. As a first step, the most effective path out of the global recession must avoid a generalised wage deflation, an outcome that could aggravate the crisis even more than a wave of competitive devaluations. Wage deflation would undercut global demand and undermine popular confidence in global solutions, generating potentially counter-productive responses from workers. As we move forward, it is important that the global effort supports a recovery that minimises the loss of employment. This requires greater emphasis on decent and productive employment, especially for women, migrants and the youth.

42. In the medium term, we will face the challenge of social security reform, which in turn contributes to income stabilisation and the institutional resilience of labour markets. Cooperative work is required to enhance social protection across the globe, in a manner that is sustainable and adapted to national circumstances.

43. The recovery must also be designed to avert environmental deterioration. South Africa is committed to making a fair and meaningful contribution to global efforts to mitigate greenhouse gas emissions and to adapt to its inevitable impacts. To this end, enabled by new and additional international funding, technology and capacity-building, we intend to lay the basis for measurable, reportable and verifiable nationally appropriate mitigation actions, and we have adopted a strategic vision for our emissions to peak between 2020 and 2025, stabilise for a decade thereafter, before declining in absolute terms towards mid-century. We are also convinced that acting now on climate change presents us with a critical opportunity to overcome some of the challenges of the global economic crisis.

44. We intend to increase our investment in pro-poor, job creating and sustainable green growth that supports the transition to a low carbon and climate resilient economy and society. We hope other G-20 leaders will use the opportunity of the London Summit to make similar national commitments to act.

45. However, it is also crucial that the G-20 London Summit build political momentum towards Copenhagen, without prejudging the formal negotiations under the UNFCCC's Bali Roadmap. The agreement we reach should address, in a fair, effective and inclusive manner the four building blocks of a future climate regime: adaptation, mitigation, technology and funding.
46. Clearly, the G-20 London Summit will not be able to resolve these deep rooted problems in one day. But it is critical that the signal that emerges from global leaders is one that indicates willingness to re-think the fundamentals of the world economy. These can be no business as usual. Going back to the status quo ante will generate - at best – a short and unsustainable recovery that simply postpones the crisis to a latter and more fraught day of reckoning.

TAKING FORWARD OUR COMMITMENTS

47. The mandate agreed at Washington extends far beyond March 31. The G-20 has agreed to specific time frames to address a number of issues, including the realisation of meaningful reform of the Bretton Woods institutions during the course of next year.
48. South Africa is of the view that the G-20 summit process should continue. In addition to providing a point of reference against which the implementation of the Washington action plan can be monitored, the G-20 should turn its attention to the issues underpinning a longer term sustainable recovery. This includes the issues of reforms to the global monetary system, the creation of a more equitable system of global economic governance, and the social and economic architecture of a more inclusive globalisation.
49. As confidence is rebuilt it is important that we remain focused on the future and how we will continue to engage. It will therefore be important for Leaders in London to reach agreement on the date and location of the next Summit. The next G-20 Summit should be held later this year, while the composition and role of the group must become more formalised.
50. We should never lose sight of the fact that the actions we take and the outcomes they generate are far more important than any number of Summits, and that the success of our meeting in London will be judged not by what we agree on 2 April, but what we are seen to do thereafter.