SA vs. the G20: On the major players, and conquering the Temple of Doom

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Spector settled in Johannesburg after a career as a US diplomat in Africa and East Asia. He has taught at the U. of the Witwatersrand, been a consultant for an international NGO, run a theatre, and been a commentator for South African and international print/broadcast/online media, in addition to writing for The Daily Maverick from day one. He says he learned everything he needs to know about politics from ‘Casablanca.’ Maybe he’s cynical about some things, but a late Beethoven string quartet, John Coltrane’s music and a dish of Pad Thai will bring him close to tears.

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Looking back over the issues and decisions of the most recent G20 meeting in Brisbane, Australia, J. BROOKS SPECTOR finds parallels between the challenges raised at the summit and those facing South Africa’s finance minister in healing the nation’s economic woes.

In the end, the Russian navy didn’t bombard Australia and Australian PM Tony Abbott and Russia’s Vladimir Putin didn’t get down and dirty “shirt-fronting” each other over Russia’s role in Ukraine, although Putin got an earful about his country’s bad behaviour in the Ukraine while he was in Brisbane. By contrast, the US and China had so successfully put away their disagreements – at least publicly – at the earlier APEC summit that Xi Jinping and Barack Obama didn’t have any
reasons for any public spats, and Japanese PM Shinzo Abe and China’s Xi’s didn’t get into a mutual hissing contest either, following their tentative embrace at the earlier APEC meeting in Beijing.

And unlike the circumstances at so many other previous G20 meetings, the crowds of protestors had little opportunity to throw raw eggs at the VIPs or let poisonous reptiles loose in the conference hall. Nevertheless, the visiting heads of state did get to cuddle some koala bears for a cutey, Aussie photo opp. (The extraordinarily hot weather in Brisbane may have also helped keep the crowds tamer than usual.)

By the time the G20 meeting had wrapped up, there was a flurry of excitement that the representatives of the nineteen nations and the European Commission - nations that represent some 85% of the world’s economic activity - had signed on to a plan to goose the globe into a state of re-energised economic growth, rather than what now seems to be an apparently permanently mediocre growth trajectory it is in now. But, there are plans and plans.

Officially, the final communiqué said the G20 members agreed to jolt the global GDP by over $2 trillion worth of investments in infrastructure and trade increases. If this is fully carried out, the experts agree that this should be sufficient to bump global GDP growth upwards over current levels by 2.1% - by 2018 - in order to create millions of jobs, globally.

Putting the best conceivable face on things, the Australian prime minister (and this year’s G20 host) insisted the conferees had signed on for over eight hundred measures aimed at perking up the global economy. As Abbott described it, “The G-20 has delivered real, practical outcomes and, because of the efforts that the G-20 has made, this year, culminating in the last 48 hours, people right around the world are going to be better off.”

For example, the plan, as announced in the gathering’s final communiqué, would set up a global infrastructure hub to help match potential investors with projects. The leaders also targeted reductions in the gap between male and female participation in the workforce by 25% by 2025, arguing this would add 100 million more women in gainful employment and consequent reductions in poverty to their families.

To make these plans stick, PM Abbott argued that the various G20 participating nations would hold each other to account by monitoring implementation of their commitments to boost growth. To help this along, the International Monetary Fund and the Organisation for Economic Cooperation and Development (another international economic grouping) would have a significant role to play here, both in monitoring progress and estimating the economic benefits of the growth plan.

But reality has a way of sneaking in to undermine such lofty proposals. While American economic growth has been strengthening significantly in recent months, growth in China and Japan has weakened over the same period, and most of Europe is poised on the brink of yet another recession. (American officials have been chiding Germany in particular for its reluctance to engage in expansionary economic policies.)

In fact, in the short space of time since the final statement was released, some observers have already warned G20 nations would need to comply with every single one of those hundreds of proposed measures for the plan to be successful. This may be a near-impossibility, given the fact that while the leaders of many of those member nations can say they have signed on to this protocol, they still need to gain the support from their respective legislatures, as well as develop real domestic support for these proposals before they are derailed from the opposition of various
powerful domestic interests. Just for starters, as Thomas Bernes, of the Center for International Governance Innovation, a Canadian think-thank, put it, “There are two questions: whether the specifics are credible and whether the political backing by leaders is convincing.”

In touting the broad support among the G20 nations for these measures, Abbott said the group had been most successful in supporting efforts to streamline customs procedures and reduce regulatory burdens as trade expansion proposals. As Abbott explained, “The G20 has delivered real, practical outcomes and, because of the efforts that the G20 has made, this year, culminating in the last 48 hours, people right around the world are going to be better off.” He added, “Trade is a key driver of growth, perhaps the key driver of growth and we’re focused on domestic reforms to facilitate trade as well as the importance of a strong global trading system.”

Sticking with its economic agenda, the G20 also addressed the issue of tax avoidance and evasion by multinational corporations. The group ended up declaring that profits should be taxed in the country where they are actually earned. There have already been efforts by a number of governments to crack down on the practice of big companies such as Google and Amazon to move their profits earned in one country to other countries with lower tax rates through a variety of tax avoidance mechanisms, but these agreements would move this further along. In addition, the gathering also announced their endorsement of a global common reporting standard for the automatic exchange of tax information – but which will only kick in several years into the future.

As far as the tax issue is concerned, attendance at this gathering had put European Commissioner President Jean-Claude Juncker, only two weeks at his new job, in a real hot seat, given his record as Luxembourg’s prime minister for eighteen years. As the AP reported at the beginning of the G20 meeting, “During a news conference on the side-lines of the G20, he was grilled about whether Luxembourg was guilty of ‘picking people’s pockets’ while he was the nation’s leader, and asked whether he could be considered a credible representative of the European Union on the issue of tax avoidance, given his ties to Luxembourg. Juncker largely deflected the questions.”

That is not too surprising, really, given the interest of a number of smaller nations in being havens for the tax-avoiding mega-fauna of the international corporate ecology, so as to improve their own individual national economies. And there is the core of the G20’s conundrum – it doesn’t have the ability to make anything stick simply by getting the sign-off by the leaders at the meeting, save for the willingness of its member nations to do what their leaders have said they want to do.

Despite his expressed intention to keep this Brisbane meeting focused on economic issues, except, that is, whenever there were lingering reverberations of Abbott’s earlier promises to “shirt-front” Vladimir Putin kept coming up, it was probably inevitable that a significant chunk of the energy of this G20 meeting ended up swirling around Russia’s actions vis-à-vis Ukraine. Somewhere in the midst of Abbott’s outrage is the not-so-very-small point that some thirty-eight Australians died in the shoot-down of MH17 over Ukraine and the unwillingness of the Russians to accept any responsibility for this incident has made hosting Putin something of a political hot potato for Abbott.

Despite the fact Abbott arranged for Putin and the others to cuddle koala bears, the Russian president actually left Australia before the final communiqué was even publicly released. According to the AP, “He told reporters he left ahead of a final lunch with fellow leaders because he wanted to be rested before returning to work, according to a translation of his comments by an Australian Seven News journalist allowed into a press briefing that excluded most foreign media.” (And probably to avoid press questions about Ukraine as well.)
In fact, while they were still at the G20 meeting, Australia, Japan and the US issued a joint statement that condemned Russia for its Ukraine actions, and Canada’s Prime Minister, Stephen Harper, told Putin when the Russian offered him his hand to shake, “I guess I’ll shake your hand, but I have only one thing to say to you: You need to get out of Ukraine.”

And, what about Abbott? When reporters asked him how things had worked out in his interactions with Putin, the Australian prime minister said that they had engaged in a “very robust” discussion about the situation in Ukraine. He went on to add, “I utterly deplore what seems to be happening in eastern Ukraine. I demand that Russia fully cooperate with the investigation, the criminal investigation of the downing of MH17, one of the most terrible atrocities of recent times.” One would have to guess that Putin didn’t exactly feel like a welcome guest after that tongue-lashing, with or without the promised “shirt-fronting” - and even after he had petted the koala.

According to media reports, South African President Jacob Zuma gave a hearty greeting to Putin. This was probably the only warm, fraternal handshake Putin received during the entire G20 meeting, given the tensions over Ukraine, so it is not surprising Putin made his choice to leave early.

Meanwhile, on the first day of the larger G20 meeting, the BRICS nations also managed to squeeze in a little informal mini-summit of their own. According to their statement, they congratulated themselves for their progress in implementing the Fortaleza Action Plan. Specifically, they “underscored that the signing of the agreements establishing the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) brought BRICS cooperation to a fundamentally new level with the creation of instruments to contribute to the stability of the international financial system. They expressed their commitment towards the expeditious ratification of both instruments.” Further they called for an interim board of directors for their to-be-born NDB and to ensure that by the time they met next year, the CRA working group would have dealt with all procedural rules and guidelines for their “Governing Council and the Standing Committee of the CRA. They also asked their Central Bank Governors to ensure that the Inter-Central Bank Agreement foreseen in the CRA be concluded by the Summit in Russia.”

Beyond the details of these BRICS financial plans, the group also expressed their concern over the still-flabby global economic recovery, saying, “[T]he Leaders noted that a strong and long-lasting recovery is yet to materialise. Emerging market economies have been contributing to global economic activity by sustaining high growth rates, despite adverse circumstances and spillovers from policies of major advanced economies, especially monetary policies. The Leaders noted the G20 efforts, but underscored that more needs to be done to support global demand in the short-run, especially by advanced economies, and to promote an increase in investment and long-run growth potential. They underscored that investment and economic reforms are critically important to boosting demand and lifting long-term growth. Emerging market economies remain in general well prepared to face external shocks.”

The BRICS group also added they were disappointed over the lack of IMF reforms agreed to four years earlier and asserted, “In the event that the United States fails to ratify the 2010 reforms by the year-end, they called on the G20 to schedule a discussion of the options for next steps that the IMF has committed to present in January 2015. They also emphasised the need to continue the IMF reform processes.” And like everyone else, they expressed their concern over Ebola and promised to work with everybody else to deal with this epidemic, although there were no specific commitments of money, personnel or resources noted anywhere.
In a statement issued separately after the summit, Zuma was quoted as speaking approvingly of measures to deal with international tax avoidance, the Ebola plague and economic group. On the latter, the statement said, “In order to sustain global growth, we need to, amongst others, accelerate infrastructure development, especially in Africa. This will help lift intra-Africa trade and contribute immensely toward enabling our Continent to industrialise and to create jobs in high value sectors, so that Africa can produce value-added manufactured goods.”

However, the key to all the promises, pledges, blood oaths and prayers that have come out of G20 meetings – including the many side discussions - is that, ultimately, they are all dependent on the political will and capabilities of the various leaders to make them realities within their respective nations. For example, while it was not part of the G20 meetings, strictly speaking, the US-China accord on climate change and carbon taxes has already been strongly attacked by the newly emboldened Republicans in the US Congress as offering what are unilateral concessions by the US without real counterpart concessions from the Chinese. Statements like that are almost guaranteed to be a precursor of withholding agreement via congressional action (or, inaction), at least until 2016 potentially brings in more Democrats in Congress to support the measure.

Something of the same order of things can be observed in South Africa’s own domestic political economy (and you thought we’d never get there). Just before he left for Brisbane, Finance Minister Nhlanhla Nene had spoken to a gathering of American business leaders in South Africa. Putting the best possible face on the challenges the country faces in generating its own efforts to push up economic growth, Nene argued that while the country’s recent sovereign credit rating downgrade by Moody’s was of concern, the change of that rating agency’s outlook to stable from negative was encouraging. Nene said the various international rating agencies are now watching whether his government will be able to “walk the talk” regarding fiscal consolidation and slowing the growth of government debt. And as Nene said, “The [downgrade] is cause for concern and it is precisely because of our story, but... we have a plan and indeed we are committed to the plan.”

He went on to promise the business gathering that the government was improving the quality of its services and moderating spending growth to bolster low confidence levels. In discussing this, Nene noted that the government had established a task team to propose ways of combating “unnecessary red tape.”

Nene’s problem, of course, is that as the new finance minister and the point man for economic growth, he has been dealt a rather poor hand to play, even though, now that he is in the job, he must stay in the game. The challenge is that he is dealing with a government budget where the salary portion of the total budget is growing relentlessly and the government has increasingly been borrowing in order to fund current expenditures. Moreover, as the international borrowing premium goes up (a combination of the need to offer higher interest rates in response to ratings declines and the continuing devaluation of the currency), it will be costing the government ever more to finance its infrastructure spending.

Going forward, Nene will, increasingly, need to undertake some sort of legerdemain to fund the perpetual recapitalisation demands of the nation’s cash-eating state owned enterprises - many of which seem incapable of effectively delivering the services they are supposed to offer. And he must do all of this as he has less than full control over the spending habits of a ruling elite that favours bling and the fun stuff over the need to rein in that kind of governmental expenditure.

All of this, of course, is taking place in an environment where investors are getting edgy about investing in a nation with massive, pervasive unemployment; where there is a labour force far less skilled for the tasks ahead than is needed; and in a country that operates with a complex, rather
inflexible labour law environment as well as a business climate stunned by strikes and where the cost of carrying out normal, routine business can seem to be ever more difficult. As with the G20 in the global macrocosm, within South Africa, Minister Nene must deal with a complex, interconnected set of economic variables, but he must work without the protection of a national political class keen to make the necessary changes – and then make them stick.

But if the G20 as a group cannot carry out their unified pledge to put into place all of those eight hundred initiatives to kick-start economic growth to at least the 2.1% level, at least some nations will get there on their own, even if they can’t pull everyone else along for the ride. However, if Minister Nene cannot put into place the reforms he knows are needed to get to The Promised Land, the result may condemn South Africa to years of muddle or worse – but without the benefit of someone else to do the heavy lifting.

As he said at that recent breakfast, “[B]usiness needs the support of a capable and effective state that creates an enabling environment whilst furthering social equality. The government must ensure efficient network industries (such as roads, rail, telecommunication and ports). It has to lay the foundations for the supply of skilled labour and deliver a supportive and predictable regulatory environment. The next phase of growth will be about the dynamism and agility of the private sector, and the synergies between the private sector and government.”

He went on to argue that, going forward, there were several crucial needs. South Africa must “put public finances on a sustainable footing”; the government needs “to slow down the growth of government debt”; that the country must “improve the quality of government services”; and that South Africa must begin to “crowd in” private investment.

But stating the problems is one thing. Getting from such statements of principles to action – both at the G20 and here in South Africa – will be something rather different. **DM**

Read more:

- Measures Government is Putting in Place to Grow the Economy and Implement the New Development Plan Speech by the Minister of Finance Nhlanhla Nene to the American Chamber of Commerce Business Breakfast, 13 November 2014, at the Treasury [website](http://www.treasury.gov.za)
- G-20 leaders reveal details of global growth plan at the [AP](http://www.ap.org)
- G-20 summit opens in Australia; growth tops agenda at the [AP](http://www.ap.org)
- Moody’s downgrade ‘cause for concern, but outlook revision encouraging’ at [Business Day](http://www.businessday.co.za)
- Lew to Germany and Japan: Be More Like Us at the Brookings Institution [website](http://www.brookings.edu)

*Photo: The official G20 Leaders’ Summit group photograph signed by G20 leaders at the conclusion of the G20 Leaders Summit in Brisbane, Australia, 16 November 2014. The summit aimed to stimulate growth and employment worldwide. Heads of state and government also discussed the fight against the terror militia IS as well as the Ebola epidemic. EPA/ANDREW TAYLOR*

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![J Brooks Spector](http://www.dailymaverick.co.za/article/2014-11-17-sa-vs.-the-g20-on-the-majo... 11/17/2014)
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