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Speech by Daryl Swanepoel, Chief Executive Officer, Inclusive Society Institute, South Africa: International Conference on Poverty Alleviation: China's Rationale, Beijing, China, 28 January 2021

There is global recognition of China's poverty eradication programme, which has helped 800 million of its citizen's shake off poverty since the country's opening-up, and that it has now managed to lift China's rural population out of poverty. Africa has much to learn from China's programme of eradicating absolute poverty and its targeted poverty alleviation approach, which emphasizes the need for establishing long-term poverty alleviation plans and mechanisms to prevent a return to poverty.

I will concentrate my remarks on viewing it from a South African perspective. Firstly, a snapshot of the status quo, secondly, the need to learn from the Chinese 5-year planning cycle approach, thirdly, what needs to be included in South Africa's economic reinvigoration, and finally, the all-important issue of containing population growth.

Status quo

Unemployment has reached an all-time high in South Africa. As at the end of the first quarter of 2020, the official unemployment rate stood at 30,1 percent. Whilst it did decline to 23,3 percent in the second quarter of 2020, this was because of the increase in the expanded unemployment rate, which rose by 2,3 percentage points compared to Q1:2020. This was due to the significant increase in the number of people that were available for work, who are no longer actively looking for work (Stats SA, 2020(a)). In terms of the expanded definition of unemployment, the rate soared from 39,7 percent to 42 percent (Zwane, 2020).

At the same time, GDP has also been falling. According to Statistics South Africa, the economy registered three consecutive quarter on quarter declines. GDP (seasonally adjusted and annualised) in the first quarter of 2020, fell by two percent. It contracted by -1,4% and -0,8% in the fourth and third quarters of 2019, respectively (Stats SA, 2020(b)). Much emphasis has been placed on the need for material GDP growth to arrest the spiralling unemployment. To reduce unemployment to about ten percent, the South African economy will have to register growth of around five to six percent per annum for the next twenty years (Cotterill, 2019). This, whilst GDP growth over the ten-year period 2009 to 2018 averaged a mere 1,5 percent (CRA, 2020:86).

And all of this prior to assessing the impact of the COVID-19 pandemic which has served only to exacerbate the problem. Year-on year, further job losses in the formal sector were seen in all industries during the pandemic, showing a decrease of 671 000 employees (-6,6%) in June 2020 compared with June 2019 (Stats SA, 2020(c)). It has also ravaged the informal sector.

Even more worrisome is that GDP per capita has been falling – from a high of USD 12,884 in 2014 to USD 12,482 in 2019 (Trading Economics, N.d.)
So, in terms of the two elements needed to reduce poverty – job growth and GDP growth – South Africa has been sliding. Thus, this conference is so important. We urgently need to chart a way forward that will enable the country to reverse its fortunes. For this, the Chinese experience can serve as inspiration.

Planning cycles

"Since 1953, China's Five-Year-Plans have been the single most important guiding documents signalling the policy direction for the country's future economic and social development" (Wong, 2020). Under this model the economy is managed through its five-year plans that set goals, strategies and targets (Asialink Business, N.d.).

South Africa also manages its economy via multi-year plans. Firstly, it has the National Development Plan 2030 (NPC, N.d.), which sets the longer-term desired outcomes and targets, whilst the details are unpacked in the three-year medium-term budgets presented annually to Parliament. What seems to be lacking, on the one hand, are the tactical longer-term strategies and action plans. And on the other hand, policy certainty and continuity remains fluid. New ideas (most without concrete supporting modelling) are continually being introduced, and it appears that as the economic situation worsens, anxiety is setting in through the introduction of more populistic ideas, many of which are untested, even disproven. This creates a longer-term disjuncture and, in many cases, a misplacement of resources. This apart from the economic uncertainty that it creates.

So, what's to be done: I think South Africa could do itself a favour by gaining a deeper understanding of the Chinese long-term planning model. At the moment the country knows what it wants as its end-goal, but I am not sure it is clear on how to get there. It has some clear ideas (as embodied in the National Development Plan (NDP)), but it doesn't have a holistic modelled action plan. This is both a public and private sector dilemma. Whilst the public sector is often inconsistent and fluid, the private sector relies on precedence without projecting it into concrete overall development plans with actionable steps.

I strongly propose a project led by international and South African thought leaders to consider how to strengthen South Africa's economic planning regime. Without proper planning, poverty alleviation is a myth. This could be a possible take-out from this conference.

What needs to be included in the plan

The Inclusive Society Institute, which I represent, has embarked on an economic research project aimed at developing an economic blueprint for South Africa. Using the NDP as the departure point, it aims at introducing concepts that will consolidate actions toward achieving its goals, but so too, new ideas that will help fast-track growth. I believe we have much to learn from the Chinese planning regime.

Some ideas that are surfacing include:

- A renewed look at meaningful Public Private Partnerships (PPP), for example, tolled ***new*** economic infrastructure or fee-based use of current infrastructure, for example the rail networks. These need to be workable business-like partnerships in the true sense, not mere private sector implementors or, in essence, funders.
- Given the country's already high taxes, yet the need for more funding, to look at dedicated taxes (or ringfenced taxes) to achieve specific objectives and

programmes set out in the blueprint. There will be resistance to general tax increases without clear deliverables attached to these increases.

- How to effect import-substitution – something that COVID-19 has served to once again highlight. Here the role of the state has to be re-evaluated. It could very well be that the state has a greater and more direct role to play in the establishment of manufacturing capacity in the country; capacity that could be privatised later.
- Linked to the aforementioned is the need for a renewed look at the SEZ policies of the country. We need to attract FDI more vigorously. The current model is not ambitious enough, and remains pretty constrictive in nature. We need to be more radical in our approach and would do well to draw lessons from the Chinese approach to true SEZs.
- It is important to note that given the high levels of poverty and inequality in South Africa, welfare grants play an important role in alleviating abject poverty and serve as the barrier between survival and starvation. Whilst the need is expanding, the resources required to meet the demand are diminishing. There is much discussion in South Africa at the moment with regard to a Basic Income Grant (BIG), but affordability is doubtful. Without the prerequisite accompanying GDP growth, the welfare system is fast becoming unsustainable.

  We therefore need to embark on a new approach to the grant model. Transfers alone is not affordable. We can, however, examine community national service-based grants. Through this approach economic value can be added to off-set the welfare spend. I can think of national recycling projects, infrastructure maintenance projects, etcetera. Where the recipients of grants are deployed into projects that generate income or underpin economic growth. This would, in essence, be a more productive extension of, and more economically focussed, expanded public works programme. This could well be implemented via PPP.

There are more, but time constrains. I think the approach is captured.

Population growth

To my mind, most probably the biggest challenge facing South Africa (and Africa) is the high population growth, with its concomitant growth in the youth population. Many consider the high youth numbers a dividend, as it provides a workforce and consumer market. However, when population growth exceeds economic growth, it becomes a drain on development. There is little focus on this problem at the moment. Why? I don't know. Maybe because it is a difficult topic to address, maybe because of the controversial cultural and religious dimensions attached to it. But whatever the reasons, it can no longer be ignored.

Chinese economic development has been intricately linked with its ability to control population growth. I am not suggesting the same measures can be taken in Africa given our different political and cultural dispensations. But we can also not ignore that should population growth continue to outstrip job growth; we are heading for the proverbial fiscal cliff. It would serve us well to understand the Chinese link between population growth control and its ability to lift its population out of poverty. We can then work on our own solutions to the problem.

The Inclusive Society Institute (2021) will soon release a paper on this topic. In its scenario planning, it suggests that given the current population growth rate (1,48% per annum), any sustained GDP growth of less than three percent per annum over the next ten years will see unemployment (and poverty) grow. Bear in mind that the norm for GDP growth in middle-income developing countries is around 2-3 percent (Ngugen, 2019). Even in the best-case scenario, a sustained growth of four percent over ten years will not have a significant impact on unemployment.

South Africa's NDP suggests a desired population growth rate of 0,5 percent per annum. Were it possible to maintain that over the next ten years (that is to 2029), a sustained two percent GDP would reduce unemployment from 36,62 percent in 2019 to 30,65 percent, at three percent to 24,56 percent and at four percent to 17,99 percent. Once again, bear in mind this is illustrative, because in reality it is not possible to reverse population growth from 1,48 percent to 0,5 percent overnight.

Impact of population growth on unemployment

(Percentage of unemployment expanded definition)

	@ 0,5% p.a. population growth			**@ 1,48% p.a. population growth**		
Year	**2% GDP**	**3% GDP**	**4% GDP**	**2% GDP**	**3% GDP**	**4% GDP**
2019	36,62%	36,52%	36,62%	36,62%	36,62%	36,62%
2029	30,65%	24,56%	17,99%	37,06%	31,54%	25,57%

I would strongly recommend that the issue of population growth and its impact on unemployment (and poverty) receives higher prominence in economic policy planning. Currently, it is a non-feature of such plans, whilst, in the absence of an elusive miracle sustained high GDP growth, it is the main driver of unemployment.

Conclusion

Addressing poverty is a multifaceted endeavour. Addressing one side of the equation, without addressing the other side, will not bring about the solution. As African policymakers we need to focus on creating conditions for both high GDP growth and low population growth. We also need to develop plans with clear and focussed deliverables. And these plans need to be predictable – whilst constant tweaking is necessary, constant change distracts development, holds it back, and in essence wastes resources on experimentation and start-stop projects.

No doubt, the problem of poverty can be resolved. The greater challenge is to mobilise the managerial, political and leadership skills behind programmes rooted in reality. And above all, not to allow anxiety to disrupt planned implementation, but to keep cool and focussed whilst implementing workable plans. There is no short-term solution. It will take decades. In the meantime, we need to keep the population calm. They will not remain complacent if things continue to get worse. They will remain calm if there is sustained and continual improvement in the social conditions. This is our challenge: Arrest the decline and ensure immediate incremental improvement.

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