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Developing a New Economic Blueprint for South Africa – Lessons from South Korea

Summary of themes from a webinar hosted on August 5, 2020

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Inclusive Society Institute

132 Adderley Street

Cape Town, 8000

South Africa

Registration: 235-515 NPO

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Author: Mariaan Webb, Creamer Media Writer

Edited by: Daryl Swanepoel

The Inclusive Society Institute is developing a new growth-centred economic blueprint for South Africa. The project comprises a number of phases, the first of which is to study several economies from historically distressed jurisdictions that have successfully turned themselves into winning nations. This report focuses on lessons that South Africa can glean from the South Korean development experience.

Contents

Abbreviations & acronyms

GDP .... gross domestic product

GNI .... gross national income

ISI ....Inclusive Society Institute

IMF .... International Monetary Fund

KAIST ...... Korea Advanced Institute of Science and Technology

PIRLS .... Progress in International Reading Literacy Study

Stats SA..Statistics South Africa

Introduction

Even prior to the coronavirus pandemic of 2020, the South African economy was for a number of years unable to produce the levels of economic growth required to address historic backlogs and create opportunities for its large number of unemployed. Recent economic choices have not been able to propel the economy into a new growth phase and high levels of corruption have had an adverse impact on State capacity and on the economy's ability to gain momentum towards inclusive growth.

Through a series of dialogue sessions with economic policy experts, the Inclusive Society Institute (ISI) is exploring the development paths of previously distressed economies, which were able to successfully implement turnaround strategies, including Japan, South Korea and Germany.

The ISI aims to develop a new economic blueprint for South Africa, and as part of this work, the institute is assessing the country's current economic model and is seeking to benchmark it against best-practice policy frameworks that have been effective in other countries.

The ISI believes that the South African economy has to be transformed to address inequality and to become more demographically inclusive. CEO Daryl Swanepoel says the depressed state of the economy obligates policymakers to take decisive action to make the structural reforms that are needed to reignite growth.

"As we have learnt and will learn from some of the countries we are exploring, it may not be all neoliberal reform that is needed. We could also more aggressively start moving towards an effective mixed economy where the State and private sector work in a more closely coordinated manner, guided by social and national democratic values," says Swanepoel.

This report, the second in a series published by the ISI, focuses on South Korea's rise from an economic minnow to a global powerhouse. Even though in the late 1950s South Korea had a per capita income comparable to West African country, Ghana, South Korea has, for decades, so accelerated its rate of economic growth that it is now the world's eleventh-biggest economy with a per capita income of more than $30 000, compared with Ghana's current per capita income of just over $2 000 (IMF, 2019).

This report is based on an August 5, 2020, webinar hosted by the ISI. Participants in the webinar included:

- Dr Jong-Dae Park, South Korean Ambassador to South Africa. He is an economist by trade and author of the book Reinventing Africa's Development.
- Theo Vorster, a South African economist and CEO at Galileo Capital.
- Professor Tania Ajam, associated with the School for Public Leadership at the University of Stellenbosch. She is also a member of President Cyril Ramaphosa's Presidential Economic Advisory Council.
- Joan Fubbs, director for the Centre for Education in Economics and Finance. She is also a former chairperson of the Parliamentary Portfolio Committee on Trade and Industry.

‘Miracle on the Han river’

The economic growth of South Korea has been a remarkable success story. Considered one of the poorest nations in the 1950s, South Korea has established itself as a developed, high-income country in just a few generations. The rapid development has been dubbed ‘the Miracle on the Han river’.

When the Korean War ended in 1953, South Korea was poorer than many African countries at that time, with per capita gross domestic product (GDP) of $67. In extreme poverty, the nation suffered food shortages, depended on foreign aid for survival and was considered by Western powers to be a “hopeless country” (Chun, 2010).

When Park Chung-hee came to power during a military coup in 1961, he proclaimed that economic development would be the central feature of his administration. He began a series of economic reforms that transformed the peninsula nation into one of the world’s biggest exporters.

The government in 1962 launched its first five-year economic development plan, which set out its ambition to modernise the industrial sector and enhance its international competitiveness. The success of the first five-year plan encouraged the government to continue forging ahead, with six subsequent five-year plans pursued in the decades that followed.

Each successive development plan upgraded South Korea’s manufacturing capabilities.

South Korean Economic and Development Plans

Plan	Years	Principal objectives
First	1962 to 1966	• Building domestic light industry, such as textiles • Infrastructure development – power plants
Second	1967 to 1971	• Building key domestic heavy and chemical industries, steel, machinery, chemicals and shipbuilding • Infrastructure development – Gyeongbu expressway
Third	1972 to 1976	• Industrial restructuring – building heavy and chemical industries
Fourth	1977 to 1981	• Industrial restructuring – strengthening heavy and chemical industries. Building the basis for technological capabilities
Fifth	1982 to 1986	• Economic stabilisation – industrial competitiveness by opening and rationalising the economy
Sixth	1987 to 1991	• Regulatory reforms • Supporting high-technology industries • Building high-technology and innovative capabilities
Seventh	1992 to 1996	• Revitalising the economy • Establishing a basis for balanced development of industrial sectors and companies

Source: Shanghoon Kim

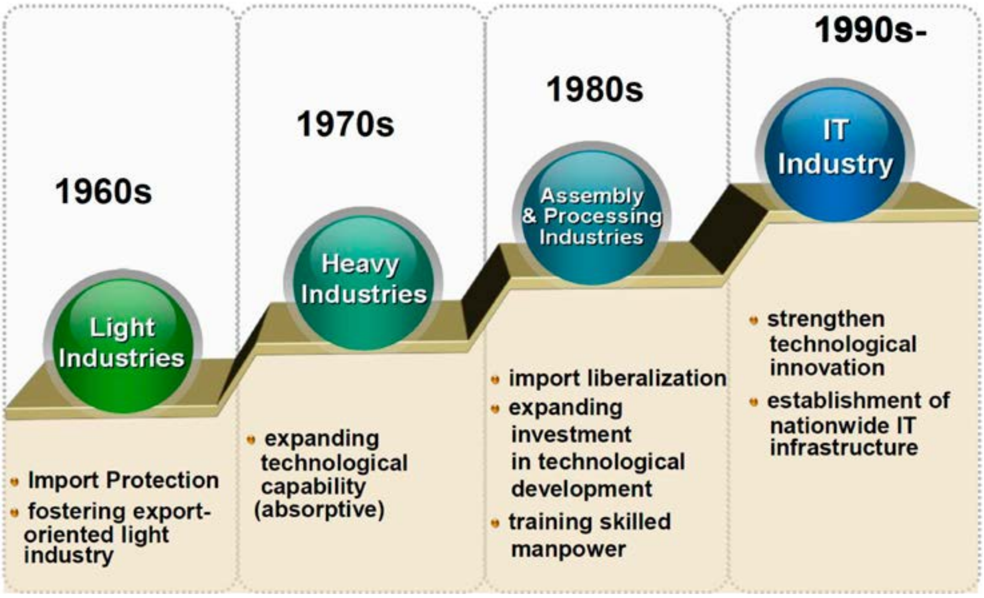
'Miracle on the Han river'

The first five-year plan (1962 to 1966) consisted of initial steps toward the building of a self-sufficient structure, focusing on light industry, such as textiles. The second five-year plan (1967 to 1971) focused on modernising the industrial structure and rapidly building import substation industries, including steel, machinery and chemical industries. The third five-year plan (1972 to 1976) promoted heavy and chemical industries, with industries including iron and steel, automotive, household electronics and shipbuilding receiving attention. The fourth five-year plan (1977 to 1981) fostered the development of industries to compete effectively in the world's industrial export markets. Technology-intensive and skilled labour-intensive industries were supported, such as machinery, electronics and shipbuilding.

In the fifth and sixth five-year development plans in the 1980s, the emphasis shifted from heavy and chemical industries to technology-intensive industries, such as precision machinery, electronics, including televisions and semiconductor-related products. The seventh five-year plan, launched in 1992, gave preference to developing high-technology fields.

One of the most fundamental problems South Korea faced, was how to finance its growth plans. To encourage domestic savings from which capital could be funnelled to development projects, interest rates were raised substantially in 1965, and, accordingly, savings grew rapidly (Park, 2019).

The 'select and focus' strategy has been a key to economic development



Source: Sanghoon Kim

‘Miracle on the Han river’

Under the Park administration, the central government played an important role in economic development, with the Economic Planning Board serving as the nerve centre. Headed by a deputy Prime Minister and staffed by highly capable bureaucrats, the Economic Planning Board allocated resources, directed the flow of credit and formulated economic plans (Savada & Shaw, 1990).

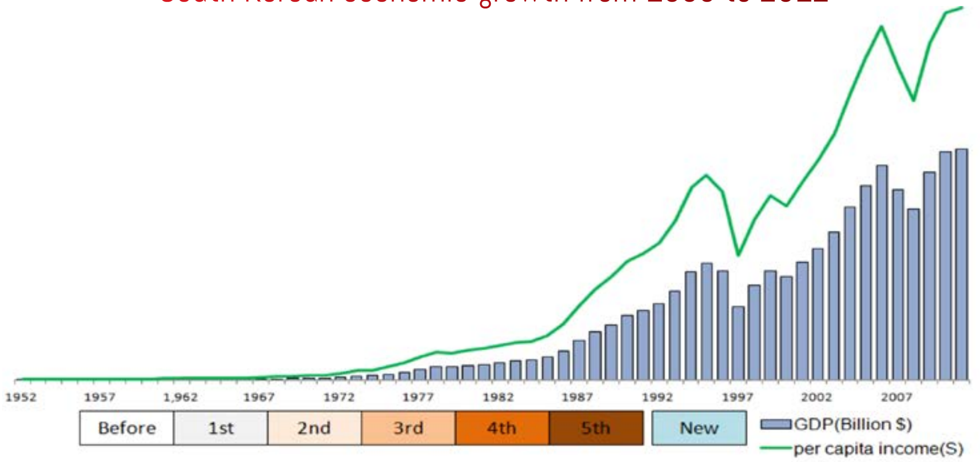
Cooperation between government and large family-run conglomerates, or chaebols, was essential to the country’s economic success. Government generously supported chaebols, such as Hyundai, Samsung and LG Corporation, nurturing them into globally recognised brands. The practice was similar to that of the other Asian Tigers (Albert, 2018).

Government and chaebols have long had a symbiotic relationship. They dominate South Korea’s economy and wield extraordinary influence over its politics (Albert 2018). However, the cosy relationship, once seen as an instrument for growth, has in recent years increasingly roused the public’s ire.

Public discontent with the chaebol reached a new peak in 2016/17, with the eruption of an influence-peddling scandal that led to the ouster of President Park Guen-hye.

South Korea’s economic development strategy lifted the nation out of poverty and set it on a path of high economic growth. South Korea and Taiwan are the only two countries that consistently grew at more than 5% a year for 50 years. Park argues

South Korean economic growth from 1953 to 2012



	1953	1962	1967	1972	1977	1982	...	2013
per capita income($)	67	87	142	322	1,043	1,927	...	24,044
GDP(Billion $)	1.3	2.3	4.2	10.8	38.2	77.5	...	1,197

Source: Jong-Dae Park

that South Korea's trajectory is perhaps more impressive than Taiwan's, owing to the scale of its economy and how it has performed in its post-industrialisation phase.

South Korea successfully overcame the oil crisis in the 1970s, the Asian financial crisis in 1998 and the global financial crisis in 2008.

South Korea in 2012 joined the so-called '20-50-club', those with per capita GDP surpassing $20 000 and a population of more than 50-million. At the time, the country's Finance Ministry described it as an "unprecedented feat" for a newly industrialised economy. South Korea was the first country that was not an industrialised economy before World War 2 and the seventh country in the world to achieve this feat.

In 2018, South Korea joined the even more exclusive '30-50 club' of economic powerhouses, with a 50-million population and a per capita GDP of more than $30 000.

South Korea's gross national income (GNI) was $1.68-trillion in 2018 and $1.74-trillion in 2019, with a per capita GNI of $32 610 and $33 720 respectively (World Bank, 2020). While South Korea's economy has performed well in recent years, short-term growth is moderating and long-term growth is facing headwinds (IMF, 2019).

Lessons from South Korea

In his 2019 book, 'Reinventing Africa's Development: Linking Africa to the Korean Development Model', Jong-Dae Park categorises the essence of the South Korean model of economic development into two main elements: compressed economic growth and effective social mobilisation for change.

South Korea's development is considered unique because the country has advanced by promoting industrial transformation, while instilling the 'can-do-spirit' into its people and encouraging them to be active agents of development (Park 2019).

There were four fundamental cornerstones upon which compressed economic growth and effective social mobilisation were realised: land reform, empowerment of the people, revolution in education and governmental reform. The most important of these, according to Park, being land reform and empowerment of people.

The lessons that South Africa can take from South Korea's economic model can be categorised under the following headings:

- prioritising human and social capital
- stepping up rural development
- incentivising growth through differentiation
- improving coordination and implementation

Prioritising human and social capital

Unlike South Africa that has abundant mineral resources and arable land, South Korea has little natural resources to rely on for wealth creation. Instead, effective social mobilisation and its 'can-do spirit' drove South Korea to become an advanced country.

Besides government's critical intervention in advancing economic development, people's mindset and action-oriented movements played an equally important role in South Korea's overall development.

"It is not our resources that fuelled our growth, but the work of people," says South Korean Ambassador to South Africa, Jong-Dae Park, noting that there is an important lesson in that for South Africa.

"It is up to people to make use of what they have, to work hard and to be entrepreneurial. Despite the adversity you may face, if you have commitment and the people are working together, you can achieve development."

Leaders have to motivate and inspire people to be more productive and to be empowered.

Centre for Education in Economics and Finance director Joan Fubbs agrees that South

Africa should make its citizens an essential component of its development. "If we adopted that principle more rigorously, we would not have some of the challenges we have now."

Education plays an important role in facilitating a mindset change. The South Korean State's investment in, and people's passion for, education laid the foundation for the country's economic rise. Education investments delivered a capable labour force, willing to work and to get out of poverty.

Education was the biggest item in the South Korean government budget, after defence, in the late 1950s and 1960s, at which time the literacy rate reached almost 90% (IMF, 2016). The South Korean government has continuously expanded the provision of free education to all students. Starting with free primary education in 1958, which was expanded to middle school between 1985 and 2005. The country plans to provide free education to all high school students, starting in 2021.

In South Korea, education is a basic right stipulated in its Constitution. South Africa's Constitution guarantees a similar right, but Professor Tania Ajam, from the School for Public Leadership at the University of Stellenbosch, is concerned about the standard of the country's education output. She argues that South Africa is not producing a quality education or the type of skills that a modern economy requires.

South Africa's literacy crisis

South Africa ranked last out of 50 countries in the 2016 Progress in International Reading Literacy Study (PIRLS), which measures literacy rates of Grade 4 learners.

The study found that about 78% of South African Grade 4 learners do not reach the international benchmarks and, therefore, do not have basic reading skills by the end of the Grade 4 school year, in contrast to only 4% of learners internationally.

Learners writing in African languages attained the lowest mean scores, significantly lower than those writing in Afrikaans and English. Learners living in remote, rural areas, small towns or villages and townships had the lowest reading literacy achievement.

The 'PIRLS 2016 in South Africa', produced by the Centre for Evaluation and Assessment of the University of Pretoria's Education Faculty, has made several recommendations, some of which include:

- Strengthening teaching of reading literacy and training of pedagogical content knowledge of teachers across all languages in the foundation phase.
- Increasing the proportion of time spent on reading in foundation and intermediate phases in the curriculum, as well as encourage extramural reading and reading habits.
- Urgently reducing class sizes. (South Africa's class sizes average about 45 learners.)
- Providing and increasing school resources such as libraries.
- Reviewing interventions on information communication technology provision and increasing effective access to technology (Howie et al, 2017).

Source: University of Pretoria, Faculty of Education's Centre for Evaluation and Assessment

Lessons from South Korea

Realising the importance of science and technology in its development, South Korea also took a different approach with tertiary education. The country placed its leading science and technology university under the aegis of the Ministry of Science and Technology, instead of the Ministry of Education. This improved the quality of graduates that the prestigious Korea Advanced Institute of Science and Technology (KAIST) produces. The highly qualified scientists and engineers from KAIST have played a big part in the status that the nation currently enjoys as a large exporter of high-technology goods.

Fubbs states that South Africa's human capital remains comparatively weak in technology and skills: "There is a potential and willingness in human capital, but we are yet to grapple with how to empower people technologically as fast as we can."

Despite a spate of recent scandals, ethics has a strong foothold in the South Korean society, something which is arguably lacking in South Africa. In South Korea, the value and importance of ethics are taught to children throughout primary and secondary school, through to university. The aim is that ethics should become internalised rather than something that people have to learn as adults when they enter the work place.

Stepping up rural development

Although South Africa has made efforts since the dawn of democracy in 1994 to improve the lives of rural communities and regenerate rural economies, it has had limited success. Poverty has remained consistently high among South Africans living in rural areas.

South Africa's 2011 Census reported that nine out of ten households in the upper-income category are from urban settlements, whereas no-income or low-income households are more prevalent in rural areas. About 43% of rural households are living below the food poverty line, compared with about 28% of urban households (Stats SA, 2015).

At the start of its industrialisation, South Korea also faced a widening urban-rural gap, as people rushed to cities for jobs. In 1971, income in rural areas was 78.80% of that in urban areas.

Through a focused rural development programme, this trend was reversed and average incomes in rural areas overtook those in the cities.

The average income of rural families was higher than that of urban households in 1975, and comparable to that of urban households until the early 1990s, whereafter rural households were having increasing difficulty maintaining economic parity with their urban peers. In 2010, the average farm household income was 66.70% of urban household income (Hwang, Park & Lee, 2018).

Lessons from South Korea

South Korea's successful land reform programme and the launch of Saemaul Undong – a community-based integrated rural development programme – contributed to narrowing the economic gap between urban and rural communities.

Also known as the New Community Movement or New Village Movement, the programme emphasised that people in rural communities should not expect the State to help them, but that they should help themselves.

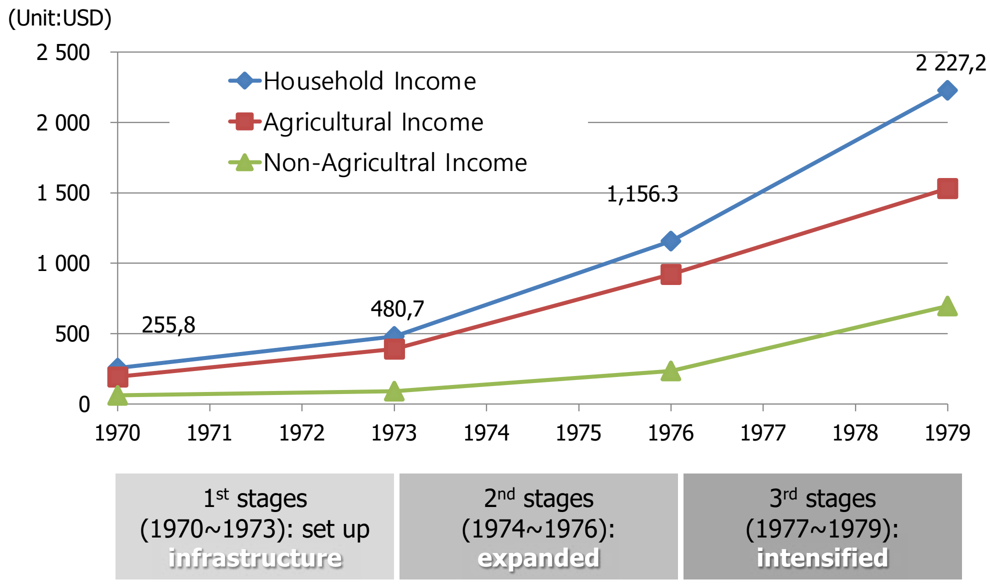
The State provided small startup subventions for projects to develop local communities, mostly in the form of raw materials or occasionally financial subsidies, while villagers had to contribute labour.

With a 'we can do it' approach, Saemaul Undong was based on three doctrines: diligence, self-help and cooperation. The development approach induced locals to work voluntarily in a self-help fashion to generate resources and income on their own. Citizens realised that their fate and future depended on themselves.

Simultaneously, the programme instilled a belief in the power of unity, which manifested in care and encouragement for one another.

There are similarities between the principles of Saemaul Undong and the African philosophy of Ubuntu, which places emphasis on 'being self through others' and President Cyril Ramaphosa's Thuma Mina campaign, which focuses on volunteering and community activities to build an improved South Africa.

Income growth through Saemaul Undong



Source: Jong-Dae Park

Lessons from South Korea

Park says South Africa should seek to internalise community responsibility. He suggests starting by "bringing back and rekindling" the value of community and by making better use of its rural and traditional leaders to engage people more directly.

An increased focus on rural development could also address problems that are associated with South Africa's dual economy, where on the one hand it has a small, high-skilled, high-productivity economy, and on the other hand a large, low-skilled, low-productivity economy. The large, traditional sector, is mostly in rural areas.

"The benefit of rural development policies is that you skill the poor and make them more productive to work in the manufacturing sector," says Park.

The foundation for South Korea's successful rural development was laid by the land reform programme, which is considered one of the most successful of its kind. Under the Farmland Reform Act of 1949, government pursued land reform on the principle of 'compensated forfeiture and non-free distribution', whereby farmland was bought from landlords at predetermined prices and sold to farmers at below-market prices. The reform ended the past landlord-tenant system and fostered self-employed farmers.

When the Farmland Reform Act was passed in 1949, South Korea was still dominated by conservative members of the landowning class, reluctant to carry out land reform.

However, the Korean War disrupted these vested interests and presented an opportunity for accelerated land reform led by an emerging technocratic and meritocratic leadership.

South Korea's land reform was rapidly implemented and completed in only ten years. This is in stark contrast to the disappointing results seen by many other developing countries, including South Africa, in their land reform endeavours.

Ajam states that State capacity remains a hurdle to the successful implementation of South Africa's land reform programme. Progress has been slow and redistributed land has not always been productive.

Fubbs suggests that the land reform challenges in South Africa are so deeply embedded, that had South Africa followed the South Korean model by driving its land reform during a time of crisis, when the country became a democracy in 1994, it may have been easier to implement than it is now.

Park believes South Africa should find a pragmatic way that balances various interests, to resolve the country's land issues.

Lessons from South Korea

Incentivising growth through differentiation

Economic discrimination was an important driver in South Korea's development model. It is based on the principle of meritocracy and provides selective incentives for superior economic performers.

Park suggests that the concept of economic discrimination, or differentiation, be employed to encourage people to act. "If you reward everyone the same, despite their economic performance or work input, how will you grow the economy? Where is the work motivation?" he questions. Equally, people will be less inclined to repeat misdeeds if there are sanctions.

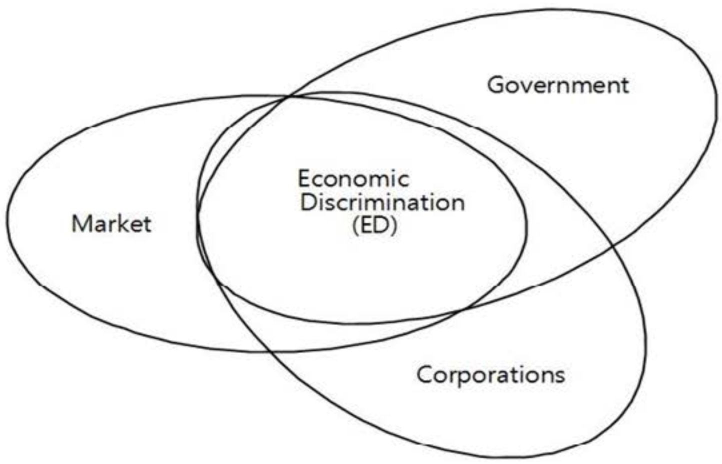
Such systems and policies, which allowed for performing companies to reap rewards and where there were consequences for non-performance, meant that a healthy degree of competition was fostered in South Korea, unleashing competitive forces and efficiency gains for the country.

Park explains that economic discrimination does not mean that government picks 'winners'. The 'winners' perform first, then get rewarded. It is merit based. There is no controversy and no corruption. For instance, performing companies would be allowed to gain access to low-interest bank loans, import privileges, permission to borrow from foreign sources and tax benefits, whereas such preferential opportunities would not be available to non-performing companies.

Citing Sung-Hee Jwa's 'General Theory of Economic Development: Towards a Capitalist Manifesto', he argues that economic discrimination is essential for economic development.

The so-called holy trinity of economic development – markets, government and corporations – should work together, using the principle of economic discrimination, to steer the economy towards real transformation.

The 'holy trinity' of economics and economic discrimination



Source: Professor Seung-Hee Jwa

Lessons from South Korea

South Africa is a deeply unequal country, with deeply entrenched historical advantages and disadvantages. Since the advent of democracy in 1994, the country has not been able to effectively overcome historical inequalities or develop a system of rewards or sanctions for organisations or individuals. In fact, Ajam says that in government and the private sector, there are no obvious consequences for incompetence and corruption.

Improving coordination and implementation

Developing economic policies that deliver growth requires not only commitment and strong political leadership, but also efficient coordination, strong implementation and close inspection.

Park implores developing countries to improve coordination, stating that the work of various offices and agencies will not be effective without it. The same goes for implementation. Ideas and plans are only as good as their implementation. South Africa continues to stumble, not because of a lack of resources or the means, but because of a management problem.

According to Park, implementation hinges on 'development-mindedness': knowledge, practising, ownership and passion, also known as "KPOP".

Fubbs argues that South Africa has some of the best policy internationally, but its challenge remains implementation. South Africa has been struggling to apply various well-intentioned policies that are aimed at fostering economic growth and uplifting the nation. South Korea, on the other hand, successfully implemented seven consecutive five-year economic development plans between 1962 and 1996. Its first development plan was implemented during a time when the situation was dire for South Koreans. They could either give up and live poor, or do something about it.

South Korea's success in implementation hinged on several key pillars, but it came down to social capital – a mindset change and mobilising people to make it work.

Often experts share knowledge and present strategies for development, but fail to address the gap between the intellectual community and the people who have to implement plans. Park suggests that specialists, under authority from government, work with the bureaucracy to direct and implement plans.

On the role of government and the market in driving development, Park says both have an important role to play. He states that it is a myth that a smaller government is better. Although he does not believe that governments should necessarily be involved in running companies, he says that they have a key role in providing the framework for economic growth and development.

Conclusion

Park, who has been the South Korean Ambassador to South Africa since February 2018, believes that South Africa has the potential to prosper. "It can be done," he says, but notes that the drastic transformation that is needed will require a profound change in people's behaviour.

Although fundamental rules of economic development and industrialisation apply, South Africa is in a position to leapfrog certain stages of development, owing to its existing strengths in finance, technology and its democratic system.

Park does not believe that South Africa should replicate South Korea's model step by step, but should 'learn by doing' and develop its own model based on its individual circumstances and strengths. "There isn't a model you can just follow as a manual. South Korea did not develop because we were given a model by the World Bank or the IMF [International Monetary Fund]. Our model came after trial and error."

He states that Covid-19 has revealed South Africa's underlying weaknesses and that it is a perfect time to reflect. "South Africa has many rich things that people envy all over the world. Success will come only through doing the right things, through hard work and through the changing of minds. It cannot be business as usual."

Park cautions against downward equalisation – 'don't kill the goose that lays the golden eggs' and says the essence of growth is wealth creation, not wealth transfers.

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The Inclusive Society Institute (ISI) is an autonomous and independent institution that functions independently from any other entity. It is founded for the purpose of supporting and further deepening multi-party democracy.

The ISI's work is motivated by its desire to achieve non-racialism, non-sexism, social justice and cohesion, economic development and equality in South Africa, through a value system that embodies the social and national democratic principles associated with a developmental state. It recognises that a well-functioning democracy requires well-functioning political formations that are suitably equipped and capacitated. It further acknowledges that South Africa is inextricably linked to the ever-transforming and interdependent global world, which necessitates international and multilateral cooperation. As such, the ISI also seeks to achieve its ideals at a global level through cooperation with like-minded parties and organs of civil society who share its basic values.

In South Africa, ISI's ideological positioning is aligned with that of the African National Congress (ANC) and others in broader society with similar ideals.

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