

An update on South Africa's political risk profile in 2015/6

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Abstract

In 2015, South Africa has dropped out of the Kearney Foreign Direct Investment Confidence Index for the first time since its inception in 1998. Although many resource companies have diverted their investments away from emerging markets in 2014, South Africa also had perception issues driven by lower growth and rating downgrades by the leading international rating agencies. The question arises whether political, economic and social conditions in South Africa are currently posing greater political risk for potential investment than during the 1990s to mid-2000s. This calls for a fresh assessment of relevant indicators or variables in the South African context. In other words, what is needed is an analysis of relevant political risk indicators that are based on a sound intellectual tradition and practical logic. Against this background, this study is an attempt to revisit and analyse current political risk in South Africa on the basis of a selected set of indicators or variables that are commonly and internationally used in risk analysis frameworks.

Keywords: Political Risk Analysis; South Africa; Political Risk Indicators; Assessment of risk in South Africa.

Introduction

The past years, specifically under President Jacob Zuma, have been stormy years for South Africa, raising the question whether South Africa is still a country of “acceptable” political risk. In 2005, Prof. Albert Venter of the University of Johannesburg² observed that South Africa's macro-political risk image in the mid-2000s (circa 2005) could best be portrayed as a “medium risk category”.³ Venter produced an authoritative South African analysis (in the field of political science) and premised his study on the identification

1 The author wishes to note that this article is based upon work supported financially by the National Research Foundation (NRF) of South Africa. Any opinion, findings and conclusions or recommendations expressed in this material are those of the author and therefore the NRF does not accept any liability in regard thereto.

2 Currently Emeritus Professor.

3 A Venter, “A comment on political risks for South Africa”, *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 28-54.

of macro-political risks in South Africa, specifically based on risk indicators or variables used in research by Howell and Chadwick. These indicators or variables are widely recognised by international institutions, government agencies and major corporations as fundamental in operational and strategic planning.⁴

Much has changed in South Africa since Venter conducted his research. The country has experienced an important transition at the top level of political leadership, and the political arena in general has undergone many changes. Furthermore, in the political-economic arena, South Africa experienced several paralysing strikes in the platinum industry between 2012 and 2014, as well as violent strikes and related confrontations in the agricultural sector in the Western Cape in 2013. Crippling strikes in the metal and engineering sector in 2014 further added to instability and uncertainty in the South African political-economic landscape.

One of the main inducements for the writing of this article relates to the downgrading of South Africa's sovereign debt rating by Moody's and Standard & Poor's after the Marikana incident during the latter part of 2012. Downgrading means that the South African government has to pay more for borrowing money, making the financing of infrastructure projects and the economy in general more challenging. Further, in 2014, underperformance in South Africa's economic growth – mainly because of fairly aggressive strikes in the mining industry between January and July 2014 – increased the negative perception of the three leading international rating agencies, Moody's, Standard & Poor's and Fitch, about South Africa's ability to generate sufficient revenue for government to be able to reduce its budget deficit and to limit the increase in its growing public debt.⁵ Simply put, all of this boiled down to international scepticism about the country's economic policy and government's capability to initiate or implement economic reform.

Another matter of serious concern relates to the fact that for the first time since the inception of the Kearney Foreign Direct Investment Confidence Index, South Africa has dropped out of the Index in 2015. The Foreign Direct Investment Confidence Index, established in 1998, is an annual forward-looking analysis of how political, economic and regulatory changes will likely

4 PJ Fouché, "A political-security risk analysis of Uganda", MA thesis, University of Pretoria, 2003, p. 11.

5 A Jamine, "Moody's downgrade was to be expected", *Business Report*, 9 November 2014 (available at <http://www.iol.co.za/business/budget/moody-s-downgrade-was-to-be-expected-1.1777638#.VGEfhvmUcYk>, accessed, 10 November 2014).

affect the top 25 counties' FDI (foreign direct investment) flows. Since its inception, countries ranked in the Index have consistently attracted a major portion – at least half – of global FDI inflows more or less one year after the survey.⁶

At the time of writing (March 2016), a question that received much public attention in the political-economic context was whether South African sovereign bonds will be downgraded to below investment grade (junk bond status) by one or more of the major credit rating agencies in the near future.⁷ This followed a plummeting of the rand against major international currencies on 9 December 2015 shortly after President Jacob Zuma removed Nhlanhla Nene as Minister of Finance and appointed the relatively unknown ANC Member of Parliament, David van Rooyen, as the new minister. The drama continued when Zuma came under severe political pressure to reconsider his decision and decided to re-appoint a previous Minister of Finance, Pravin Gordhan, thereby replacing David van Rooyen who served in the position for a mere four days. The drama deepened when Zuma and Gordhan effectively entered into a political battle over state resources,⁸ and when Deputy Minister of Finance, Mcebisi Jonas, revealed that the influential Gupta family (a most influential Indian–South African business family, known for their close relationship with Zuma) offered him the post of Minister of Finance as a replacement for then minister Nene, which he rejected out of hand.

The question arises whether political, economic and social conditions in South Africa are currently posing a greater political risk for potential investment than during the mid-2000s. This calls for a fresh assessment of relevant indicators or variables in the South African context, as well as for a reasoned, empirically defensible, and verifiable investigation based on a sound intellectual tradition and practical logic.⁹ Against this background, this article is an attempt to analyse current political risk in South Africa rooted in a set of indicators or variables that are often generically used in risk-analysis frameworks.

5 AT Kearney, "The 2015 A.T. Kearney Foreign Direct Investment Confidence Index. Connected risks: Investing in a divergent world", 2015 (available at <https://www.atkearney.com/documents/10192/5797358/Connected+Risks+%E2%80%94Investing+in+a+Divergent+World.pdf/e45b9ffa-700b-445e-bb34-e2dfff082009>, accessed, 25 May 2015).

7 J Laubscher, "Can SA avoid junk status", *Fin24*, 2 February 2016 (available at <http://www.fin24.com/Opinion/can-sa-avoid-junk-status-20160202>, accessed, 17 March 2016).

8 Anon., *Mail & Guardian Centre for Investigative Journalism, Mail & Guardian*, "Gordhan's battle with Zuma", 17 March 2016 (available at <http://mg.co.za/article/2016-02-26-00-gordhans-battle-with-zuma>, accessed, 18 March 2016).

9 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 28-29.

The political economy of South Africa during the late 1980s and early 1990s

It is commonly known that South Africa's economic performance during the late 1980s and early 1990s was constrained by external pressures relating to the political and economic isolation of the country. Specifically, foreign companies doing business in South Africa experienced pressure in their home countries to disinvest. Sanctions started to get momentum when in September 1985 the European Community (EC) imposed a set of limited trade and financial sanctions on South Africa, while the Commonwealth countries adopted similar measures in October of that year. In the United States, the Reagan administration was not in favour of imposing sanctions on South Africa, but decided to impose a limited export ban to head off stronger action in Congress. A political and financial crisis developed in South Africa as the South African government failed to reach agreement with its creditors. In February 1986, an interim agreement with South Africa's creditors was reached and in March, the South African government lifted the state of emergency that was declared in July 1985.

In June 1986, the state of emergency was re-imposed in the build-up towards the tenth anniversary of the Soweto uprising (a series of protests led by high school learners in South Africa that began on the morning of 16 June 1976). In the course of 1986, a second and more significant round of sanctions ensued. In September, the EC banned imports of iron, steel, gold coins from and new investments in South Africa. The EC excluded, however, some important South African mineral exports, such as coal, diamonds and other forms of gold. Japan also passed similar sanctions shortly thereafter, but excluded iron ore as a strategic commodity. In the United States, a most important drive for disinvestment and sanctions came when Congress passed the Comprehensive Anti-Apartheid Act (CAAA). President Ronald Reagan vetoed the CAAA, but his veto was overridden in October 1986. The CAAA was significant in the sense that it severely restricted lending to South Africa (although not loan rescheduling) and imposed import bans on iron, steel, coal, uranium, textiles and agricultural goods. Again, strategic materials, diamonds and most forms of gold were omitted from the package.¹⁰

After sanctions had been imposed on South Africa and its government, manufacturing policies and practices moved further towards import

¹⁰ PI Levy, "Sanctions on South Africa: What did it do", Yale University, Centre Discussion Paper, no. 796, pp. 5-7.

substitution and self-sufficiency in strategic products. This led, for example, to huge government investments in oil-from-coal production and the manufacturing of military hardware. A lack of interest from foreign investors to make investments in the South African economy in combination with weak competition laws, powerful industrial interests and various limitations on entrepreneurial endeavours led to high levels of concentration in the ownership and structure of the manufacturing sector.

The political economy in South Africa did not constitute a friendly environment for new entrants, black-owned enterprises and small businesses. In addition, public investment in infrastructure started to decline, leading to a backlog of new infrastructure development and maintenance of existing infrastructure. In a socio-political sense, South Africa had become a country of two nations. On the one side was a well-resourced section of the population with the potential to compete, while the other section was marginalised without the necessary infrastructure and with limited access to capital, assets and opportunities. Most important, from a macroeconomic point of view, inflation aggregates reached alarming levels of more than 15 per cent in 1991, while balance of payments instability due to economic sanctions and lack of foreign direct investment reached “chaotic proportions”.¹¹

Since the political change, which has taken place in South Africa after the unbanning of the liberation movements and the release of former president Nelson Mandela, the South African political economy has undergone a fundamental and structural adjustment. This adjustment had a substantial effect not only on the everyday lives of South Africans, but also on the business and investment climate in the country. Since 1994, the challenge for the new South African government was to attract foreign investors and to create a political, economic and social environment where citizens would have access to employment and enterprise opportunities.

In the post-sanctions period, business enterprises of most kinds were essentially compelled to become adaptive, more innovative and internationally competitive. An important challenge was to work towards a platform of infrastructure and logistics, competitive input prices, skills, technology and innovation, partnerships, efficient regulation and effective government offerings.

¹¹ C Harmse, “The relationship between South Africa’s macroeconomic policies and the performance of the various asset classes”, Paper delivered at the 2006 Conference of the South African Reserve Bank, Pretoria, 22-24 October 2006, pp. 221-222.

According to Harmse,¹² various analyses of the adjustment process of the South African economy indicate that adjustment was particularly successful from the late 1990s onward. On the side of government, it not only had to address the domestic constraints and the problematic structure of the economy, but also had to steer a vulnerable and isolated South African economy towards integration into a robust global economy. Since 1994, the Mandela government managed to put sound fiscal, trade and monetary policy stabilisation programmes in place and contributed towards not only the creation of a normalised economic and investment environment, but also towards diminishing the risk factor for foreign portfolio and direct investment. Realising the importance of foreign investment, Mandela proclaimed in 1993:¹³

... foreign investors can open up new possibilities. They can bring new skills and technologies to a South Africa starved of innovation and technical know-how and can gain us access to new markets. Foreign investors can also provide competition for domestic monopolies and oligopolies, which have thrived on South Africa's isolation at the expense of other people...

The latter is of special importance to an understanding of further discussions and focus on political risk in contemporary South Africa.

Cursory notes on risk analysis and risk in contemporary South Africa

Defining and understanding political risk is largely a case of disciplinary perspective or approach. For students of international business, for example, political risk relates to a concern with the management of those factors that can influence market conditions. For political scientists, definitions of political risk tend to rest with the exercise of power and the harm that can stem from this to individuals, nations states and even the international system. Generally, scholars in various fields or disciplines such as politics, political economy, economics, trade, investment and international business all grapple with the problem or challenge of political risk in one way or another.¹⁴

12 C Harmse, "The relationship between South Africa's macroeconomic policies and the performance of the various asset classes", Paper delivered at the 2006 Conference of the South African Reserve Bank, Pretoria, 22-24 October 2006, pp. 221-222.

13 N Mandela, "South Africa's future foreign policy", *Foreign Policy*, 72(5), 1993 (available at <http://www.anc.org.za/show.php?id=4113>, accessed, 11 April 2016).

14 SL Jarvis, "Conceptualising, analysing and measuring political risk: The evolution of theory and method", (Research Paper Series: LKYSP08-004), pp. 3-5.

The point of departure in this article is that political risk concerns the functioning of two very different but interacting domains, namely business and politics. The article further relates to a potential drawback to a business operation arising from political behaviour. Political actors and their behaviour are concerned with the social organisation and underlying ideals of society. The basis of political actors and their behaviour relate to matters pertaining to authority, ideology, political culture, social identity, the social good and the levers of power to influence these.¹⁵ South Africa is a developing country, and given the country's political dynamics over many years, political risk has always been a matter of interest or concern to many educated and informed South Africans and will remain important in the unfolding of the future political landscape of South Africa.

As far as the South African political-economic landscape is concerned, Clem Sunter, former chairman of the Anglo American Chairman's Fund and probably South Africa's most prominent scenario planning practitioner, pointed out that in May 2013, South Africa was ranked 53rd out of 144 countries in the World Competitiveness Report of the World Economic Forum. He argued that the country should have been ranked 32nd because it is the 32nd largest economy internationally, but instead, it was listed 21 places lower "because of policy uncertainty which is deterring investors".¹⁶ Since then, South Africa has continued its downward trend to its current 56th place.¹⁷

Given the need for a fresh and thorough assessment of political risk in South Africa, the research on which this article is based was an attempt to determine or measure continuity and change in the political risk profile of South Africa. Methodologically, a selected number of the variables or indicators in the academic work of Fouché and Venter¹⁸ were used, namely authoritarian measures to retain power; staleness of incumbency and leadership succession; legitimacy of government; social risk (including terrorism and religious fundamentalism); socio-economic conditions; safety and security; racial, ethnic and religious cleavages; trade union activism and labour policy; macro political-economic circumstances; administrative (in)competence in

15 R McKellar, *A short guide to political risk* (Surrey, Gower Publishing Company, 2010), p. 6.

16 K Foss, "SA poised for our own Arab Spring", University of the Witwatersrand Media Centre, December 2003 (available at http://www.wits.ac.za/newsroom/newsitems/201312/22281/news_item_22281.html, accessed, 1 August 2014), p. 3.

17 K Schwab (ed.), *The Global Competitiveness Report 2014-2015* (Geneva, World Economic Forum, 2014), p. 39.

18 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 28-54; PJ Fouché, "A political-security risk analysis of Uganda", pp. 1-33.

government; and the security of private property. This article does not claim to present a complete political risk analysis, but to provide the readership with a basic or cursory overview of some of the most significant indicators or variables needed to determine or outline South Africa's current political risk profile up to the time of writing (March 2016).

Authoritarian measures to retain power

Authoritarianism pertains to a lack of democracy, ranging from totalitarianism to authoritarianism that may lead to discontent.¹⁹ Venter described the South African political landscape of the mid-2000s as a democratic state where the government did not need any authoritarian measures to retain power. However, the country's body politic was marked by the absence of a strong formal opposition that could act as a serious political contender at the polls. The problem is that a state under long-term one-party dominance, despite its nominal constitutional democratic status, is prone to lapse into arrogance and corruption, and to confuse the interests of the state with that of the party.²⁰

In South Africa's most recent national and provincial elections, the Democratic Alliance (DA), which constitutes the main parliamentary opposition in South Africa, has managed to make some inroads by winning 22,2 per cent (up from 16,7 per cent in 2009) of the national vote and 89 of the 400 seats in the National Assembly, which are up from 12,3 per cent of the vote and 50 seats in the National Assembly in 2004. The DA also once again won the Western Cape Province with an outright majority of 59,3 per cent (up from 51,1 per cent in 2009) of the provincial vote.²¹

In recent years, Jolobe – like several other analysts – contended that the ruling African National Congress (ANC) has consolidated its position “as a ruling dominant party” in the “absence of real interparty political competition”.²² This argument, however, should be qualified since the ANC's support fell from 69,7 per cent in 2004 to its lowest ever level of 62,2 per cent in 2014. This coincides with a declining ANC membership, which is increasingly associated with factionalism within the party structures, something that

19 PJ Fouché, “A political-security risk analysis of Uganda”, pp. 28-29.

20 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 33.

21 South African Institute of Race Relations, “Our biggest voting bloc: The dont's”, *Fast Facts*, 5(273), May 2014, pp. 2-4.

22 Z Jolobe, “Factions, cabals and the politics of leadership competition in the ANC”, *SA Reconciliation Barometer: Tracking Socio-political Trends*, 10(3), 2014, p. 6.

compelled ANC Secretary General Gwede Mantashe to acknowledge, “We are trying to reverse it because it is a cancer and it can weaken or even kill an organisation ... Unity continues to evade our structures, as factions are formalised instead of being confronted”.²³

At the same time, what is of concern is the blurring of the lines between party and state in South Africa, and the fact that public servants are recruited on the basis of political affiliation and loyalty rather than skills and expertise.²⁴ In addition, the dominance of the African National Congress (ANC) has created a situation where the “interests of the party” and the “will of the citizens”, from an ANC point of view, have converged for so long that it has bred intolerance to and discomfort with people entertaining alternative views.²⁵

All in all, authoritarian measures to retain power as an indicator does not seem to be spelling high political risk per se, but indications are that the ruling ANC does not make a clear distinction between administrative and party political systems.²⁶ This certainly does not instil confidence in South Africa's state institutions – a point that was clearly endorsed by *The Economist*.²⁷ In fact, the phenomenon of so-called cadre deployment – the systematic appointment of ANC loyalists in powerful and key positions – has been cited by numerous commentators, critics and role-players as a serious obstacle to competency, professionalism and efficient public service – even described as “administrative chaos”.²⁸

Staleness of incumbency and calibre of leadership

Fouché explains that staleness, as based on the Economic Intelligence Unit of *The Economist*, occurs when a leader has been in power for a period longer

23 G Makhafola, “Factionalism is a cancer: Mantashe”, *IOL News*, 9 October 2015 (available at <http://www.iol.co.za/news/politics/factionalism-is-a-cancer-mantashe-1927829>, accessed, 18 March 2016).

24 P Hoffman, “Service delivery: Constraints, corruption and cadres”, D Plaatjies, *Protecting the inheritance: governance & public accountability in democratic South Africa* (Auckland Park, Jacana Media, 2013), pp. 188-198.

25 A Matshiqi, “Reflections on the relationship between the state and the party”, *Focus: The Journal of the Helen Suzman Foundation*, 67, November 2012, p. 6.

26 M Makhanya, “Liberate the public service to do its job. That's step one”, *Sunday Times Review*, 13 November 2011, p. 4.

27 *The Economist*, “Cry, the beloved country: South Africa is sliding downhill while much of the rest of the continent is clawing its way up”, 20 October 2012 (available at <http://www.economist.com/news/leaders/21564846-south-africa-sliding-downhill-while-much-rest-continent-clawing-its-way-up>, accessed, 21 October 2012).

28 G van Onselen, “The disintegration of cadre deployment under Zuma”, *Business Day Live*, 20 October 2014 (available at <http://www.bdlive.co.za/opinion/columnists/2014/10/20/the-disintegration-of-cadre-deployment-under-zuma>, accessed, 24 June 2015).

than ten years. Such leaders tend to become detached, stale and complacent, which in turn may encourage corruption, disdain and delay in political processes. Staleness of incumbency also relates to the hegemonic position of a party²⁹ – which certainly applies to the ruling ANC in South Africa that has been in power since 1994.

Few political analysts, if any, would disagree with the point that the ANC today is facing a severe challenge of staleness of incumbency – a point that was strongly argued by Venter in the mid-2000s. Venter also described South Africa's political leadership during the mid-2000s as being of a "reasonably high calibre" and that (former) President Thabo Mbeki set a fine example of leadership. Significantly, Venter simultaneously chose to juxtapose the issue of Mbeki's successor as a "general risk". His remark concerning an "unsavoury wrangle about the position of Jacob Zuma, deputy president of the ANC and dismissed deputy president of the country" was particularly instructive and significant.³⁰ It is common knowledge that Zuma managed to survive a controversial trial regarding corruption in a state armaments deal in 1999–2000, and that he became the president of South Africa in 2009 after he masterminded the removal of Mbeki as president of the ANC and South Africa's head of state.³¹

Since 2009, matters relating to corruption, cronyism and neopatrimonialism have made newspaper headlines in many instances. President Zuma himself became the focus of media attention based on the findings of the Public Protector that R246 million of taxpayers' money was misspent to upgrade his rural home at Nkandla. Allegations are rife that Zuma had used patronage to dispense favours and to surround himself with supporters in the struggle for political survival.³² After more than four years of public discourse and bitter political bickering the Nkandla matter was (legally and politically) settled when the Constitutional Court as the final arbiter ordered Zuma to repay the funds spent by the state on certain upgrades to his Nkandla home. Even in Parliament, controversy around President Zuma was central in several incidents of chaos that played out in differences among parliamentarians over parliamentary rules. Furthermore, at the time of writing tensions between

29 PJ Fouché, "A political-security risk analysis of Uganda", pp. 28-29.

30 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 34.

31 F Chikane, *Eight days in September: The removal of Thabo Mbeki* (Johannesburg, Picador Africa, 2012), p. 45.

32 B Pogrud, "20 years of South African democracy: Successes, failures and prospects", *i24news*, 27 April 2014 (available at <http://www.i24news.tv/en/opinion/140427-south-african-blacks-believe-the-future-is-theirs>, accessed, 19 August 2014).

Zuma and finance minister Pravin Gordhan burst into the public domain, risking the careful consensus crafted by government and business leaders in an attempt to save South Africa from a rating of junk status by the leading rating agencies. This came after Gordhan was instructed by Lieutenant General Berning Ntlemenza, Commander of the Directorate for Priority Crime Investigation, commonly known as the Hawks, to respond to 27 questions in what effectively boiled down to an extraordinary battle between Gordhan and some of Zuma's closest lieutenants. Several economists have warned that this high-profile battle between two top politicians could inflict long-term damage to the economy with dire consequences for ordinary South Africans.³³

As South Africa's head of state since 2009, Zuma has been severely criticised in the media by analysts, commentators and many middle-class South Africans for his poor leadership. *The Economist* describes him as a "one-man demolition job", a "seasoned political streetfighter", and states, "some wonder, though, whether South Africa's democracy will survive Mr Zuma".³⁴ Like so many other public commentators, Richard Calland, one of South Africa's most incisive political commentators and public law professor at the University of Cape Town leaves us in no uncertainty of his disdain for Zuma. In the cynical words of Calland, "... Zuma's interests in office are narrow. They are essentially about retaining power in order to avoid the alternative, in Zuma's case, prison. He is both ideological and in policy terms, a vacant space".³⁵

Even former president Thabo Mbeki took the extraordinary step of lashing out against Zuma's leadership of the country. Mbeki did not mention Zuma by name, but it was clear that he was referring to Zuma when he expressed "great unease" with the "dangerous and unacceptable situation of directionless and unguided national drift".³⁶ Clearly there is much concern about Zuma's leadership among middle-class and high-income-earning South Africans, and in this regard, few outside the ruling ANC would argue that South Africa's top leadership is still of a reasonably high calibre, or that South Africans have little to be concerned about as far as the quality of its top leadership is

33 Q Hunter, S Skiti, M Wa Africa and P Rampedi, "It's war: Gordhan-Zuma rift brings junk status nearer", *Financial Mail*, 28 February 2016 (available at <http://www.timeslive.co.za/sundaytimes/stnews/2016/02/28/Its-war-Gordhan-Zuma-rift-brings-junk-status-nearer>, accessed, 15 March 2016).

34 Anon., *The Economist*, "A one-man demolition job: The institutions of democracy are fragile and being sorely tested", 7 February 2015 (available at <http://www.economist.com/news/middle-east-and-africa/21642239-institutions-democracy-are-fragile-and-being-sorely-tested-one-man>, accessed, 3 October 2015).

35 R Calland, *The Zuma years: South Africa's changing face of power* (Cape Town, Zebra Press, 2013), p. 33.

36 S Ngalwa, S Shoba and C Kgosana, "Mbeki blasts Zuma", *TimesLive*, 21 October 2012 (available at <http://www.timeslive.co.za/politics/2012/10/21/mbeki-blasts-zuma-s-leadership>, accessed, 15 November 2012).

concerned. Many in the business sector and middle-class observers actually hope that Deputy President Cyril Ramaphosa or African Union (AU) Chair Dr Nkosazana Dlamini-Zuma would succeed Zuma and step in to reengineer governance and delivery in the country, and also steer away from what Calland describes as Zuma's "limited horizons".³⁷ However, Zuma is unlikely to retire before the end of his term in 2017 and seems to have the support of an influential lobby group in the ANC, dubbed the 'premier league' – consisting of three provincial premiers, Supra Muhamapelo (North West), Ace Magashule (Free State) and David Mabuza (Mpumalanga).

Legitimacy of government challenges

There can be little doubt that the ANC enjoyed legitimacy as a government since 1994, but it progressively had to face legitimacy challenges at municipal level since the mid-2000s, incidents that clearly demonstrated dissatisfaction with local authorities or municipalities on a broad basis.³⁸

Recent references in a report of the Institute for Justice and Reconciliation to the "near collapse of the public sector's administrative and management capabilities, particularly at local government level"³⁹ are neither alarmist nor an overstatement. Dissatisfaction with municipalities has steadily increased over the past decade. Research conducted by the Social Change Research Unit of the University of Johannesburg clearly indicates that the number of service delivery protests annually in South Africa had been increasing since 2004 and, since 2009, more of these protests have turned violent. There has also been a sharp rise in the number of people killed by the police between 2004 and 2014. The reasons for community protests are varied, but in general, the five top grievances cited were about service delivery in general, namely housing, water and sanitation, political representation, and electricity. Further grievances relate to municipal administration, roads, unemployment, demarcation, land, health and crime.⁴⁰

37 R Calland, *The Zuma Years...*, p. 33.

38 A Venter, "A comment on political risks for South Africa", *Strategic Review for Southern Africa*, xxxiii(1), 2005, p. 37.

39 I Abedian, "Intergenerational equity and the political economy of South Africa", J Hofmeyr and A Nyoka, *Confronting exclusion* (Cape Town, Institute for Justice and Reconciliation, 2013), p. 6.

40 L Grant, "Research shows sharp increase in service delivery protests", *Mail & Guardian*, 12 February 2014 (available at <http://mg.co.za/article/2014-02-12-research-shows-sharp-increase-in-service-delivery-protests>, accessed, 15 June 2014).

Other research-based organisations in the field of local government, most notably Municipal IQ, have published similar findings and there can be no doubt that the scale of protests is far greater than it was during Mbeki's term of office. Official records released to the media by the South African Police Service (SAPS) suggest that there is a service delivery protest in South Africa – either violent or peaceful – at least once every two days, although the protests relating to this could also be relating to other government bodies such as provincial government institutions.⁴¹

Whatever the target institution or level of protests, it should be noted that confidence remains far lower in the sphere of local government than in the national and provincial levels of government. The 2011 finding by the Institute for Justice and Reconciliation that low levels of public confidence in local government and a lack of trust in elected leadership and public officials are reasons for serious concern is as valid now as it was then. Likewise, the warning by Lefko-Everett et al. (2011) that violent and destructive service delivery protests may foreshadow political events yet to come is equally relevant.⁴² Capacity building and professionalism at local government level comprise an area that needs to be improved considerably since it has the potential of spiralling out of control and could result in further destruction of public infrastructure and private property. This is one area that points to considerably greater political risk than what existed during the 2000s.

Social risk: Extremism, religious tension and terrorism

This indicator or variable could relate to the domination of society or government by a single religious group that seeks to exclude other religions from political or social structures and processes, to suppress religious freedom, to replace civil law by religious law, or to dominate the governing process.⁴³ Events in relation to the 9/11 tragedy in the United States have highlighted the threat of international terrorism associated with religious militancy and its effect on a singular state.

41 A Saba and J van der Merwe, *News24*, "SA has a protest every two days", 21 January 2013 (available at <http://www.news24.com/SouthAfrica/News/SA-has-a-protest-every-two-days-20130121>, accessed, 15 June 2014).

42 K Lefko-Everett, A Nyoka, and L Tiscornia, "SA Reconciliation Barometer Survey: 2011 Report" (Cape Town, Institute for Justice and Reconciliation, 2011), p. 19; p. 47.

43 PJ Fouché, "A political-security risk analysis of Uganda", p. 36.

Venter remarked that al-Qaida and related Islamist movements apparently did not view South Africa as a high priority location from a strategic point of view during the mid-2000s. Venter also stated that since 1994, the potential for revolution or revolts against government had decreased, although the potential for societal instability in relation to right-wing militancy or bombings by groups such as the People Against Gangsterism and Drugs (Pagad) remained a “dormant risk”.⁴⁴

In a broader regional context, Africa as a continent is currently significantly affected by security challenges that also manifest in a transnational, global context. This is brutally demonstrated by the escalation in violent attacks mounted by a broad range of religiously based subnational groups from Nigeria to Kenya and beyond. However, these challenges largely manifest themselves in countries outside South Africa's immediate neighbourhood, such as Nigeria, Somalia and Mali. Except for Tanzania, Southern African states are generally not associated with terrorist activities. Furthermore, none of South Africa's neighbours seems to face any significant or serious political threat in the form of potential armed insurrection or terrorism.

In recent years, barring the arrest of a handful of right-wingers in 2012 whose political intent was to target senior ANC leaders, no serious incidents in the form of militant action against the state from either right-wing or religious extremists have been recorded, bringing the potential for such societal instability to a comparatively low level. Furthermore, political analysts did not highlight religious intolerance as a real threat to social stability in recent years. Equally, efforts by militant Islamist organisations such as IS (Islamic State) to recruit young South Africans are not of such a nature that it could be cited as a serious threat to security and stability in the country.⁴⁵ Rather, as pointed out above, social risk in the form of service delivery protests is a far more important and pressing issue and this particular phenomenon remains a factor of the highest concern in any consideration of forces and events that could negatively influence investors' confidence.

Lastly, it should be noted that a type of xenophobia against illegal immigrants has developed during the past decade, something which has been prevalent in the form of attacks on foreign nationals and their property, particularly during late 2007 to 2008. Xenophobic attacks have since reared its head sporadically

⁴⁴ A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxiii(1), 2005, p. 37.

⁴⁵ G Hosken, “How ISIS is recruiting in South Africa”, *Rand Daily Mail*, 21 May 2015 (available at <http://www.rdm.co.za/politics/2015/04/08/how-isis-is-recruiting-in-south-africa>, accessed, 21 May 2015).

but this has not posed a significant threat to security on a national scale. However, the magnitude of xenophobic attacks seems to have taken a new trajectory in April 2015 when attacks on especially African immigrants have escalated from the province of KwaZulu-Natal to Gauteng. In this context, economists in South Africa warned that an economy characterised by violence and lawlessness is not good for investment and that “xenophobia is typically both violent and lawless”.⁴⁶

Socio-economic conditions

The socio-economic conditions indicator attempts to measure satisfaction or dissatisfaction with the socio-economic policies of the government in a country. Relevant socio-economic factors vary from country to country and include, among others, disparities between different strata of society or an unequal distribution of wealth and their influence on social challenges such as crime, unemployment, illiteracy, drug use and health conditions.⁴⁷

In his earlier analysis, Venter highlighted two issues of major concern in South Africa during the Mbeki era, namely extreme differences in wealth and the Aids pandemic. With regard to the first issue, South Africa's wealth differential has always been one of the steepest in the world. Obviously, in a democracy, this has an effect on the political risk for investors since the government will be inclined to overtax the wealthy. However, a positive aspect was the growth in the middle class among black South Africans, which, according to Venter, “augurs well for longer term political stability and economic growth”.⁴⁸

Much has been written about the Aids pandemic in South Africa during the Mbeki era. Suffice it to say that this was a highly controversial issue and the single, predominating topic of Mbeki's reign in high office, since he believed that “HIV was a harmless passenger virus and that Aids symptoms were caused by malnutrition and antiretroviral therapy”.⁴⁹ Today, few informed South African observers would still list the Aids pandemic among the most

46 M le Cordeur, “Xenophobic attacks will hurt foreign investor confidence – economist”, *Fin24*, 14 April 2015 (available at <http://www.fin24.com/Economy/Xenophobic-attacks-will-hurt-foreign-investor-confidence-economist-20150414>, accessed, 20 May 2015); A Essa and K Patel, “South Africa and Nigeria spar over xenophobic violence”, *Mail & Guardian*, 28 April 2015 (available at <http://mg.co.za/article/2015-04-28-south-africa-and-nigeria-spar-over-xenophobic-violence>, accessed, 20 May 2015).

47 PJ Fouché, “A political-security risk analysis of Uganda”, p. 35.

48 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 37-38.

49 K Asmal, *Politics in my blood; a memoir* (with A Hadland and M Levy) (Auckland Park, Jacana Media, 2011), p. 214.

acute challenges for the current South African government. In fact, the Zuma government has been issuing anti-retrovirals to patients on a national scale. Unfortunately, the same cannot be said of issues relating to unemployment, poverty and inequality. The so-called triple challenge, as it has been dubbed in South Africa, is widely regarded as South Africa's most vexing social and human-development predicament. As regards inequality, measured in terms of the Gini coefficient, South Africa, with a figure of 63,14, is listed much higher than developing countries such as Brazil at 54,69 and India at 33,90.⁵⁰

Already in 2012, Mark Cutifani, chief executive officer of Anglo American, remarked that unemployment is “the most dispiriting in the short term, and potentially debilitating in the long term”.⁵¹ In terms of the official definition,⁵² the unemployment rate in 2012 was 23,9 per cent,⁵³ but has increased to more than 26 per cent in 2015.⁵⁴ Of particular concern is that South Africa's unemployment is most acute in the 15–34 age cohorts.⁵⁵ Thus, underlying the general unemployment crisis is the fact that it is primarily a youth unemployment phenomenon. Small wonder that youth unemployment in South Africa is often described as a ticking time bomb.

The problem of youth unemployment is further underlined by figures of dispiritingly low levels of educational achievement in the 20 years and older cohort, as indicated in the latest census data (2011). Out of this group, 8,6 per cent recorded “no schooling” as their level of education, 12,2 per cent recorded “some primary”, 4,6 per cent recorded “completed primary”, and a staggering 33,8 per cent recorded “some secondary” education background. This means that one third of South Africans older than 20 years have not completed their secondary education. Furthermore, according to the latest census figures and related statistical data, 28,4 per cent of South Africans above 20 years of age have completed Grade 12 (in secondary education), while only 12,1 per cent have some form of post-school qualification.⁵⁶ Although these figures have improved gradually over the past decade,⁵⁷ these figures still spell high political risk and could result in future social instability.

50 Quandl, “Gini Index by country”, 2014 (available at <http://www.quandl.com/demography/gini-index-by-country>, accessed, 17 June 2014).

51 M Cutifani, “We need a roadmap”, *Sunday Times Review*, 22 July 2012, p. 5.

52 Persons who did not work, but were available to work in the reference period.

53 Statistics South Africa, *Census 2011: Census in brief* (Pretoria, 2012), p. 56.

54 Trading Economics, “South Africa unemployment rate 2000-2015” (available at <http://www.tradingeconomics.com/south-africa/unemployment-rate>, accessed, 25 June 2015).

55 Republic of South Africa, Statistics South Africa, *Census 2011...*, p. 61.

56 Republic of South Africa, Statistics South Africa, *Census 2011...*, pp. 48-49.

57 Republic of South Africa, Statistics South Africa, *Census 2011: Fact Sheet* (Pretoria, 2012), p. 2.

It is obvious that problems in South Africa's schooling system cut deep and wide into matters relating to skilled labour in South Africa. The majority of the so-called born frees (born since April 1994) lack the skills employers require for employment. This results in economic alienation as well as alienation from the political mainstream, and hence this explains the frequency of youth participation in disruptive and sometimes violent street protests.⁵⁸

It needs to be added that socio-economic conditions extend to frustrations beyond the schooling system. In October 2015, proposed tuition fee hikes at South African universities sparked student protests at an unprecedented scale countrywide, forcing the temporary closing of the country's universities. Black students especially claimed that they are from poor families and that fee increases as a result of shrinking state subsidies rob them of the opportunity to continue studying. Although the student protests revolved around student fees, these protests once again focused the attention on South Africa's deeper challenges relating to inequality and lack of economic growth – as well as frustrations underlying the outlook of many young South Africans around persisting levels of poverty, unemployment, lack of opportunity and even state corruption in the country.⁵⁹

Safety and security

This indicator or variable is also sometimes described as law and order.⁶⁰ Venter used this indicator to reflect on crime rates in South Africa as well as the measure of corruption in society. He cited safety and security in South Africa during the mid-2000s as one of the biggest concerns for foreign and local investors in South Africa. He also pointed out that South Africa measured badly on the Transparency International Corruption Index, having been listed 48th out of 140. He concluded that crime, safety and security, as well as corruption posed a significant political risk to investors in South Africa.⁶¹

Fast forward to the present situation, Statistics South Africa (Stats SA) reports on the basis of their Victims of Crime Survey Data, that the threat

58 Institute for Race Relations, "Born free but still in chains: South Africa's first post-apartheid generation" (Johannesburg, SAIIR, 2015), p. 24.

59 BBC, "Why are South African students protesting?", 23 October 2015 (available at <http://www.bbc.com/news/world-africa-34615004>, accessed, 7 November 2015).

60 PJ Fouché, "A political-security risk analysis of Uganda", p. 36.

61 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 43.

of crime creates a climate of fear and anxiety in South Africa and that South Africans from all walks of life are dissatisfied with the level of personal safety they enjoy. From this report, it is clear that high levels of crime continue to be of concern in the country in spite of the constitutional provisions that South African citizens should be protected from all forms of violence, whether from public or private origin.⁶²

During the September 2014 release of crime statistics (for 2013/14), SAPS National Commissioner, General Riah Phiyega, reported that there was an increase in the incidence of murder, attempted murder and robbery with aggravating circumstances. Over the past decade (2004/05 to 2013/14), murder decreased by 9,2 per cent, but an increase of 5 per cent was recorded in the 2013/14 financial year.⁶³ Moreover, an alarming 13 per cent increase in robberies and burglaries at business premises sparked the South African Chamber of Commerce and Industry (SACCI) to express concern over safety and security. This called for improved policing at malls, offices and factories around the country. In the words of SACCI CEO, Neren Rau, “Crime is already a significant cost factor for many businesses due to expenses made on security and higher insurance premiums. A single incident of burglary, robbery or hijacking disrupts business operations for several days that, in total, impose a significant cost on the South African economy.” SACCI also stated that the combined figure of 92 215 incidents of robberies and burglaries at business premises during 2013/14 translated into at least R500 million in lost production – a figure that excludes repair and replacement costs.⁶⁴

Lastly, as far as corruption goes, in recent times, South Africa has slipped further down on Transparency International’s Corruption Perceptions Index. From 2010, the country’s ranking has steadily declined from 54th to 69th of the countries surveyed in 2012⁶⁵ to 67th in 2014.⁶⁶ Although the regulatory environment in South Africa has continuously improved, corruption is rife

62 Statistics South Africa, “Exploration of the extent and circumstances surrounding housebreaking/burglary and home robbery 2010–2011: In-depth analysis of the Victims of Crime Survey data”, *Crime Statistics Series Volume I* (Pretoria, 2014), p. 1.

63 Polity.org.za, “2013/14 Crime stats released”, *Polity.org.za*, 22 September 2014 (available at <http://www.polity.org.za/article/201314-crime-stats-released-2014-09-19>, accessed, 22 September 2014).

64 *Polity.org.za*, “Sacci concerned about increase in crimes against business”, *Polity.org.za*, 22 September 2014 (available at <http://www.polity.org.za/article/sacci-concerned-about-increase-in-crimes-against-business-2014-09-19>, accessed, 22 September 2014).

65 Transparency International, “Corruption perceptions index 2012”, 2012 (available at <http://www.transparency.org/cpi2012/results>, accessed, 19 June 2014).

66 Transparency International, “Corruption perceptions index 2014: Results”, 2015 (available at <https://www.transparency.org/cpi2014/results>, accessed, 24 June 2015).

in the granting of government contracts. The Broad-Based Black Economic Empowerment Strategy has also been widely criticised for too much preferential treatment to a handful of black elites in relation to receiving government contracts. It has overnight turned many politicians and persons with the “right” political connections into multi-millionaires⁶⁷ – a point also raised by Venter a decade ago.⁶⁸

Racial, ethnic and language cleavages

Fouché explains that countries with high levels of ethnic tension are generally awarded poor ratings as these societies generally represent “a negative political environment”. Likewise, the dominance of a particular society by a single religious group tends to lead to the exclusion of other religions from political or social structures.⁶⁹ Venter observed that in the mid-2000s, South Africa experienced colour/racial and ethnic divisions in society that were substantial and exclusionist. These differences were deep and a potential source of tension. In addition, support from the voting population for political parties was mostly racially based.⁷⁰

More recently, in a study conducted on behalf of the Institute for Justice and Reconciliation (IJR), Wale found that 53,6 per cent of South Africans agreed that it is possible to create a single united South African nation, while 13,3 per cent disagreed with this sentiment. Others were uncertain. In essence, not only do the majority of South Africans desire a united South Africa, but the majority are also of the view that this is possible.⁷¹ Lefko-Everett even asserts that as time goes by, South Africans will become increasingly less likely to identify race as the most significant or biggest division in the country. Instead, the gap between rich and poor is most frequently identified as the “fault line” that runs through South African society.⁷² However, Wale puts this in perspective with the following findings:⁷³

67 *News24*, “The black economic empowerment”, 27 January 2014 (available at <http://www.news24.com/MyNews24/The-Black-Economic-Empowerment-20140127>, accessed, 24 June 2015).

68 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 40.

69 PJ Fouché, “A political-security risk analysis of Uganda”, pp. 36-37.

70 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 39-40.

71 K Wale, “Confronting exclusion: Time for radical reconciliation”, *SA Reconciliation Barometer Survey: 2013 Report* (Cape Town, Institute for Justice and Reconciliation, 2013), p. 13.

72 K Lefko-Everett, “I would rather socialise with my own guy”, *SA Reconciliation Barometer: Tracking socio-political trends*, 10(3), 2012, p. 12.

73 K Wale, “Confronting exclusion...”, p. 33.

... although economic class is highlighted as the biggest division in South Africa, it only features at fifth place on the list of identity associations. This is an important finding as it demonstrates that even though class inequality divides South Africans at the material level, racial and language inequality divides South Africans at the symbolic level of identity construction and exclusion.

On the positive side, research shows there has been a growing black share of the middle class which suggests that race may be becoming disassociated from class. There is not quantitative certainty of the magnitude of this shift, but it appears that the middle class in South Africa is becoming more racially representative.⁷⁴ This shows a movement towards the normalisation of society. This should be considered against the view of Lefko-Everett that:⁷⁵

... [a]s time passes, generations change and the lived memory of apartheid fades, will historically defined racial identities be overtaken by stronger associations built around income and class? Some seem to think this is happening already, including a number of participants in a qualitative study conducted by the Institute for Justice and Reconciliation in 2011. One explained, 'before we had social classes that were based on race. Today we have classes based on your social status. How much money you have.'

On the negative side, more complaints of racial hate speech have been submitted to the Equality Court in 2014–2015 than during the previous year, up from 242 to 328. Moreover, in the past years, a number of well-known personalities landed up in trouble over comments on social media platforms that can simplistically be regarded as either anti-white or anti-black. According to Dr Piet Crouwkamp, a Johannesburg-based political analyst, “[t]he general political pressure builds up and the current rhetoric is a manifestation of what is going on below the surface.” Tensions around identities of colour also coincide with increasing competitiveness between the ANC, the DA and the EFF, as well as a lack of strong economic growth and limited economic opportunities. Still, Dr Frans Cronje, CEO of the South African Institute of Race Relations (SAIRR), a leading think-tank in the field of research on race relations, maintains that the majority of South Africans are “moderate people” and that a “hysterical

74 RESEP (Research on Socio-Economic Policy), “The emergent South African middle class”, Stellenbosch University, 2015 (available at <http://resep.sun.ac.za/index.php/projects/emergent-middle-class-in-south-africa/>, accessed, 26 June 2015).

75 K Lefko-Everett, “I would rather socialise with my own guy”, *SA Reconciliation Barometer: Tracking Socio-Political Trends*, 10(3), 2012, p. 12.

minority” drives public debate and opinion in the country.⁷⁶ Thus race relations are more positive than what newspapers and commentators tend to project.

Trade union activism and labour policy

Venter stated that union activism was the one potentially serious societal political risk that remains an issue in the post-apartheid state. The political dynamics of this variable revolve around the long-term historical alliance between the ANC and the black-dominated Congress of South African Trade Unions (Cosatu). Therefore, the ANC government has always been sensitive to trade union pressure, although quite visible tensions between government and the trade unions have been the order of the day.⁷⁷

With reference to South Africa's labour legislation, Venter observed that a marked increase in the regulatory environment for businesses since 2000 has remained prevalent. Additional bureaucratic measures have been put into place with regard to the protection of workers, resulting in a perception among investors that labour laws are inflexible. The labour force has increasingly been seen as overprotected by law, and labour productivity is viewed as low from a business point of view. Furthermore, organised labour has constantly been driven by the view that greater state intervention in the economy is needed. Where elements in government have attempted to critically assess and deal with inflexibility in South Africa's labour legislation, such attempts have been met with fierce reaction from the labour unions.⁷⁸

Given the importance of the mining sector to South Africa's economy, many questions have been asked about the continuing vigour of the South African economy after the sector faced sustained labour tension and strikes that have severely crippled the mining industry in recent years. Naturally, investors have been looking for solid reassurances from government concerning the health of the South African economy. In view of this, the former Minister in the Presidency, Trevor Manuel, acknowledged, “you are dealing with an environment where there's exchange rate volatility and you need, at least, to secure industrial peace in order to ensure that we can attract and retain the

76 M Lamprecht, “Rise in hate speech a sign of the times”, *News24*, 11 November 2015 (available at <http://www.news24.com/SouthAfrica/News/rise-in-hate-speech-a-sign-of-the-times-20151111>, accessed, 15 March 2016).

77 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 41.

78 A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 44-45.

investment and look to the mining industry because it is so fundamentally important to the South African economy”.⁷⁹

Many commentators seem to support the general view that the Marikana dynamics have brought a new dimension to the challenge of labour unrest in South Africa.⁸⁰ It should be noted here that the mining industry has especially been hit hard when so-called ‘wildcat strikes’ turned into tragedy at Lonmin’s Marikana mine in the Rustenburg area of North West, a province in South Africa, when 34 miners were killed and many more injured by police action on 16 August 2012. This followed a series of preceding violent incidents which led to the deaths of several miners, police officials and security personnel, involving SAPS, Lonmin security, the leadership of the National Union of Mineworkers (NUM), the largest trade union in the mining industry), and the striking Lonmin workforce. The Marikana event focused the attention of the international community on South Africa’s economic dynamics.⁸¹

From 23 January to 26 June 2014, South Africa faced its longest and most expensive mining strike ever when the world’s three largest platinum producers failed to meet union demands. This strike has resulted in one of the worst quarter-on-quarter mining cutbacks in the *gross domestic product* (GDP) since the 2009 recession.⁸² A recent report on structural reform in South Africa by Nedbank Capital points out that the strike was merely the continuation of an intensifying trend of antagonistic labour relations in South Africa. From a business point of view, the strike formed part of a worrisome tendency toward longer and more acrimonious strikes. The foundations of this trend are a consequence of an extremely rigid labour market, which has led to a decrease in the country’s global competitiveness in the manufacturing sector. The rigidity of the labour market is clear from the fact that the number of people employed in South Africa is slightly more than 13 million. That figure was first reached in 2006. It has varied little in recent years and in fact, has remained more or less constant around that figure.

79 L Donnelly, “SA’s economy depends on mining labour relations’, says Manuel”, *Mail & Guardian*, 4 February 2014 (available at <http://mg.co.za/article/2014-02-04-sas-economy-depends-on-mining-labour-relations-says-manuel>, accessed, 6 June 2015).

80 P Oppelt, “Fiddling in denial while a strange new tension burns”, *Sunday Times Review*, 7 October 2012, p. 5.

81 M Nkosi, “South Africa’s Lonmin Marikana mine clashes killed 34”, *BBC News Africa*, 17 August 2012 (available at <http://www.bbc.com/news/world-africa-19292909>, accessed, 15 October 2013).

82 A Mitchley, *The Citizen*, “Mining strike could hurt us all soon – Economist”, 12 June 2014 (available at <http://citizen.co.za/185452/mining-strike-hurt-us-soon-economist/>, as accessed on 12 June 2014).

As far as Venter's impressions on a long-term historical alliance between the ANC and the major labour unions are concerned, *Financial Mail* shares the view that the party has "instinctively" favoured the unions over business ever since the ANC took office in 1994. The legislation of the late 1990s has often been described as "most labour-friendly", but also least likely to stimulate job creation. Moreover, and even more worrisome in a present-day context is the observation that the unions' "disrespect for the law became part of their DNA ... the biggest danger of the strike is that it catalyses an inflationary spiral of wage demands and intensifies the hostile management/labour scenario in other industries".⁸³

The implications of the above-mentioned should certainly be a cause for concern. According to the 2013/14 and 2014/15 World Competitiveness Reports of the World Economic Forum, South Africa has dropped markedly in all of the indicators relating to labour relations from the previous years. Out of 148 economies, South Africa currently ranks 113th for labour market efficiency. Specifically, it ranks 139th for its rigid "hiring-and-firing practices", 143th for lack of flexibility in wage determination by companies, and 144th for co-operation in labour–employee relations.⁸⁴ This area of economic activity clearly spells more risk than during the two previous decades.

Macro-political and macro-economic circumstances

Venter analysed the macro-political circumstances in South Africa in the mid-2000s in terms of four sub-variables, namely income tax, structural problems in the economy, some macro-economic indicators, and the ability to attract FDI. In brief, Venter first contended that, by international standards, personal income tax and company tax were high. Secondly, he argued that South Africa experienced a number of serious structural problems in its economy relating to issues such as trained human capital, a low savings rate and a comparably low productivity rate. Thirdly, he attended to the country's fiscal and monetary policies, which he described as "defensible". Lastly, he attended to South Africa's ability to attract FDI. In brief, he argued

⁸³ *Financial Mail*, "Editorial: Thuggery and political posturing", 10 June 2014 (available at <http://www.financialmail.co.za/opinion/editorial/2014/07/10/editorial-thuggery-and-political-posturing>, accessed, 15 July 2014).

⁸⁴ K Schwab (ed.), *The Global Competitiveness Report 2014-2015* (Geneva, World Economic Forum, 2014), p. 39; p. 341; K Schwab (ed.), *The Global Competitiveness Report 2013-2014* (Geneva, World Economic Forum, 2013), p. 43.

that government was generally prudent and pragmatic in macro-economic management since 1994, but that elements in the ANC alliance, specifically Cosatu, were decidedly anti-business in their political-economic approach.⁸⁵

Without going into much detail, based on the above-mentioned variables, it could be argued that little has changed since the mid-2000s. South African economist Mike Schussler maintains that South Africa has a higher tax-to-GDP revenue than most countries. This pertains to both personal and corporate taxes and as such does not facilitate foreign investment. What is more, South Africa has one of the smallest tax bases in the world and is one of the countries with the fewest number of employers and companies paying tax.⁸⁶ In other words, the country is characterised by large income and taxable income inequality.

Secondly, as far as pertinent structural problems in the economy are concerned, schooled labour and trained human capital are among the most serious challenges in present-day South Africa. Furthermore, according to research, labour productivity – measured as output per worker per unit of capital in South Africa – has shown a decline of 32,5 per cent since 1967.⁸⁷ Without going into detail on calculating labour productivity, and accepting the fact that there are differences about the measuring of productivity in South Africa, analysts are mostly in agreement that the public sector is suffering much more from poor labour productivity than the private sector does. Another challenge is that government debt has risen from a low of 27,3 per cent of GDP in 2008/09 to 45,8 per cent of GDP in 2013/14. The figure is projected to rise to 48,3 per cent of GDP in 2016/2017. Since this figure represents the largest debt level (as a ratio of GDP) that South Africa has experienced in almost twenty years, it is certainly a source of concern.⁸⁸

85 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 46-49.

86 M Schussler, "Are South African companies in the highest taxed in the world?", *Economists.co.za*, July 2014 (available at <http://www.economists.co.za/blog/index.php?essays/2014/07/are-south-african-companies-the-highest-taxed-in-the-world/>, accessed, 24 June 2015); M Schussler, "The political correctness of tax myths: Is South Africa being fairly compared?", *Moneyweb*, 24 June 2014 (available at <http://www.moneyweb.co.za/archive/the-political-correctness-of-tax-myths/>, accessed, 24 June 2015).

87 K Naicker, "SA labour productivity at its lowest in 46 years", *Unisa News & Media*, 23 January 2014 (available at <http://www.unisa.ac.za/news/index.php/2014/01/sa-labour-productivity-at-its-lowest-in-46-years/>, accessed, 21 July 2014); *News24*, "Poor productivity holding back business", 20 August 2012 (available at <http://www.fin24.com/Economy/Poor-productivity-holding-back-business-20120820>, accessed, 23 November 2012).

88 Stanlib, "SA national budget 2014/15. A solid budget with few surprises that adheres to fiscal discipline", 2014 (available at <http://www.stanlib.com/ECONOMICFOCUS/Pages/SANationalBudget20142015.aspx>, accessed, 27 October 2014).

Thirdly, the International Monetary Fund (IMF) stated in its 2013 country report that advancing structural reforms – by specifically implementing the National Development Plan (NDP) and allowing for more competition and flexibility in labour and product markets – is imperative to achieve faster growth and job creation. At the same time they contend, “[l]imited reform progress leads to an inexorable buildup of vulnerabilities”. A reason for concern from their view is that sections of the tripartite alliance (ANC, South African Communist Party and Cosatu) have opposed the NDP as a blueprint for future development, which together with the relatively poor implementation record of structural reforms leaves many investors sceptical about prospects for major structural change. The political debate over the direction of economic policy has likewise led to policy uncertainty.⁸⁹

Officially, the South African government recognises the importance of promoting trade and inward investment, and building trade and investment relations. It is committed to play a role in the promotion of economic development and meaningful participation in the global economic and trade environment, as well as to strengthen trade and investment links with key economies.⁹⁰ Yet, local business leaders complain that the earlier trust between the business sector and government during the Mandela era has been replaced by tension between the two sectors, and at times, even a hostile, anti-business attitude on the part of government towards business. Only a few chosen businessmen reportedly have access to President Zuma and that is because of their party political affiliation.⁹¹ In short, there is no (or very little) cohesive approach between business and government on how to approach and tackle the multiple social economic issues currently facing the country.⁹² In fact, government hostility to business often results in slower economic growth.

Most importantly, in a statement released by an IMF team who visited South Africa in June 2015, it was stated, “severe electricity shortages, the worst since 2008” have been the most important obstacle to growth. Suffice it to say that South Africa’s beleaguered power utility, Eskom, was unable to meet electricity demand for much of 2015, and in November 2014 reintroduced a tortuous schedule of so-called load shedding or rolling blackouts. Against

89 IMF (International Monetary Fund), “South Africa 2013 Article iv consultation”, *IMF Country Report*, 13(303), 2013, pp. 3-5.

90 Department of Trade and Industry, “Trade, exports and investment”, 2015 (available at http://www.thedti.gov.za/trade_investment/trade_investment.jsphttp://www.thedti.gov.za/about_dti/tisa.jsp, accessed, 24 June 2015).

91 C Barron, “Why business and the ANC fell out of love”, *Sunday Times: Business Times*, 30 March 2014, p. 9.

92 B Whitfield, “Tick, tock, time is running out”, *Sunday Times: Business Times*, 10 May 2015, p. 6.

this background, the IMF team observed that this has turned out to be “the greatest obstacle to growth, reducing economic activity, sapping confidence, and discouraging investment”.⁹³

A positive aspect, however, relates to the point that the ANC ditched the concept of “strategic nationalisation” of the mining industry in favour of “strategic state ownership” in the mining sector through equity, and a state-owned mining company as its facilitating vehicle through which the state would acquire a share in future mining activities. This brought more certainty to a matter that has been a major political issue within the ANC and something that took centre stage at the ANC’s national policy conference in July 2012 in Gauteng.⁹⁴

A final matter to be recorded under macro-political and macro-economic circumstances relates to the direction of South Africa’s foreign policy. A sharp turn has been taken in South Africa’s foreign policy in relation to a more hostile attitude taken towards South Africa’s traditional trade partners in the North, that is the European Union and the United States. This occurred after President Thabo Mbeki made way for President Jacob Zuma in 2009. President Zuma views multinational formations such as the BRICS (Brazil, Russia, India, China and South Africa) as important forums on which to cast his own foreign policy legacy, and under his leadership, foreign policy gradually took on a strongly “anti-western undertone”. Increasingly, critics in the academic sector feel the need for South Africa to pursue a “multi-identity global economic governance policy”, instead of its current “singular strategy” with regard to its identification and association with the BRICS formation. The latter especially concerns an ideological tilting towards China and a growing secrecy around bilateral relations and economic diplomacy with Russia within South Africa’s foreign policy.⁹⁵

Administrative (in)competence in government

Fouché explains that the less responsive a government is to its citizenry, the more likely it is to change into a repressive society, and conversely, the more

93 IMF (International Monetary Fund), “South Africa: Concluding statement of an IMF staff visit”, 23 June 2015 (available at <http://www.imf.org/external/np/ms/2015/062315.htm>, accessed, 25 June 2015).

94 C Kgosana, S Ngalwa, G Matlala and S Shoba, “Chaos at ANC indaba”, *Sunday Times*, 1 July 2012, p. 1.

95 AS Alexandroff, “South Africa’s place in an economic global order”, *GEGAFRICA*, 8 January 2015 (available at <http://www.gegafrica.org/g20-blog/south-africa-s-place-in-an-economic-global-order>, accessed, 21 September).

responsive a government is to its citizenry, the greater the possibility for it to evolve into a peaceful democratic society.⁹⁶ In this context, Venter viewed administrative incompetence in the public sector during the mid-2000s as a significant political risk for investors in South Africa – an observation that coincided with riots at local government level due to poor governmental performance.⁹⁷

As already intimated, dissatisfaction with municipalities has increased considerably over the past decade. South Africa's NDP boldly states that weaknesses in the structures of the state constrain the state's ability to pursue key developmental objectives. The NDP also notes that there is a "real risk that South Africa's national plan could fail because the state is incapable of implementation". The authors of the document concede that South Africa has struggled to achieve constructive relations between local, provincial and national government. They also acknowledge that a lack of clarity about the division of responsibilities, together with a reluctance to manage the system has created instability and institutional tension across all three tiers of government. What is also of concern is the lack of leadership in identifying appropriate solutions and the lack of consensus on how this should be resolved.⁹⁸

What is striking is that in its 2014/2015 Global Competitiveness Report, the World Economic Forum places South Africa's financial market development at an impressive 7th place out of 144 countries. The country also has an efficient market for goods and services (28th), and it does reasonably well in areas such as business sophistication (31st) and innovation (43rd). Thus its private sector is still doing well in international comparative context. In contrast, the performance of the country's public service has recorded low scores for the diversion of public funds (96th) and the perceived wastefulness of government spending (89th). Low scores have also been recorded for a general lack of public trust in politicians (90th), and favouritism in decisions of public officials (104th).⁹⁹

As indicated earlier, one of the most troublesome aspects of service delivery in South Africa relates to electricity constraints. This factor has reduced the

96 PJ Fouché, "A political-security risk analysis of Uganda", p. 37.

97 A Venter, "A comment on political risks...", *Strategic Review for Southern Africa*, xxxii(1), 2005, p. 50.

98 National Planning Commission, *National Development Plan: Vision for 2013*, 11 November 2011, p. 20; pp. 364-366.

99 K Schwab (ed.), *The Global Competitiveness Report 2014-2015* (Geneva, World Economic Forum, 2014), p. 39; p. 341.

incentive for firms to invest and has put even greater pressure on employment and growth.¹⁰⁰ During a meeting at the 2015 World Economic Forum in Davos, Switzerland, President Zuma stated that South Africa remains open for business, but admitted that the South African economy is falling short in the energy sector.¹⁰¹ Both big industry and small businesses have been affected. Moreover, Eskom is not the only state-run firm in trouble. Two other ailing state companies, debt-riddled South African Airways and the strike-racked postal service, have been placed under direct government control,¹⁰² and this must be factored into South Africa's current political risk profile.

Another matter of serious concern pertaining to administrative competency in South Africa relates to frequent situations of chaos and paralysis that have become a regular feature of Parliament since the end of 2014. Differences over parliamentary rules among parliamentarians from opposing parties brought proceedings to a halt on several occasions and, as a result, Parliament has lost much of its credibility and functionality. Moreover, an unprecedented presence of security personnel deployed by the executive branch of government and disturbing incidents in the 'sacred' parliamentary space have cast a dark shadow over the separation of powers embodied in the constitutional order.¹⁰³

The security of property and the discourse on nationalisation

Under the heading dealing with the security of private property, Venter specifically focused on the issue of land reform in South Africa in terms of which the white minority still holds more than 80 per cent of commercial farmland. Venter pointed out that government stated that agricultural land reform was too slow and that the "willing buyer willing seller" principle had not rendered the required success or outcomes. The impression was created that the government could use its power to expropriate land voluntarily. This raised fears in general about the security of private property while government's

100 N Nene, "SA needs more dynamism to boost growth", *Business Report*, 14 November 2014, p. 16.

101 *SAnews.gov.*, "SA developing reliable energy mix, Zuma tells Davos", 22 January 2015 (available at <http://www.southafrica.info/davos/1648932.htm#.VNF05GiUegY>, accessed, 2 February 2015).

102 *The Economist*, "Unplugged: Rolling power cuts are fraying tempers", 3 January 2015 (available at <http://www.economist.com/news/middle-east-and-africa/21637396-rolling-power-cuts-are-fraying-tempers-unplugged>, accessed, 3 February 2015).

103 *BDlive*, "Editorial: Chaos sign of SA's democratic decline", *Business Day Live*, 13 February 2015 (available at <http://www.bdlive.co.za/opinion/editorials/2015/02/13/editorial-chaos-sign-of-sas-democratic-decline>, accessed, 29 June 2015).

commitment to the respect of private property was sometimes in doubt.¹⁰⁴

No land has been expropriated in recent years, but uncertainty has prevailed since Venter first propounded these arguments in the mid-2000s. In February 2014, on the eve of the national elections, President Zuma stated that since 1994, nearly 5 000 farms, comprising 4,2 million hectares, have been transferred to black people, from which 200 000 families have benefitted. In addition, nearly 80 000 land claims, totalling 3,4 million hectares, have been settled and 1,8 million people have benefited.¹⁰⁵ However, in his address to Parliament in June 2014, President Zuma also stated that government intends to accelerate the settlement of remaining land claims submitted before the cut-off date of 1998. Moreover, it was announced that government will re-open the period for the lodgement of land claims with regard to the restitution of land for a further period of five years.¹⁰⁶ This was followed by the signing of the Restitution of Land Rights Amendment Bill, which reopened the restitution claims process that was closed at the end of 1998. In terms of the Act, claimants now have five years (until 30 June 2019) to lodge land claims. With reference to policy certainty, ANC stalwart, Mathews Phosa (who joined the private sector in recent years), made the pointed remark that a lack of policy stability in South Africa was making investors wary. This needed to change, he argued, as a lack of policy stability in South Africa leads to political, economic and social uncertainty.¹⁰⁷

Another controversy relating to the security of property concerns the Expropriation Bill of 2015, which was released by the Department of Public Works towards the end of 2015 and passed by the National Assembly in February 2016. The highly criticised Bill empowers both the Minister of Public Works and all organs of state to expropriate property of virtually every kind, either “for public purposes” or “in the public interest”. Fundamentally, the Bill seeks to empower any “expropriating authority” to take property by serving a notice of expropriation on the owner. The concern is that ownership of the property in question will then be transferred to the state on the date of

¹⁰⁴ A Venter, “A comment on political risks...”, *Strategic Review for Southern Africa*, xxxii(1), 2005, pp. 51-52.

¹⁰⁵ J Zuma, “State of the nation address by His Excellency Jacob G Zuma, President of the Republic of South Africa on the occasion of the Joint Sitting of Parliament”, Cape Town, 13 February 2014 (available at <http://www.gov.za/speeches/view.php?sid=43620&clid=1>, accessed, 27 July 2014).

¹⁰⁶ J Zuma, “State of the nation address by His Excellency Jacob G Zuma, President of the Republic of South Africa on the occasion of the Joint Sitting Of Parliament”, Cape Town, 17 June 2014 (available at <http://www.gov.za/speeches/view.php?sid=46120>, accessed, 26 July 2014).

¹⁰⁷ A Wakefield, “Policy instability makes investors wary – Phosa”, *Fin24*, 19 May 2015 (available at <http://www.fin24.com/Economy/Policy-instability-makes-investors-weary-Phosa-20150519>, accessed, 20 May 2015).

expropriation identified in the notice soon after the notice of expropriation has been served.¹⁰⁸

Head of Policy Research at the SAIRR, Dr Anthea Jeffery, maintains that there are crucial pitfalls that can be found in the Bill – a document that should, by way of aligning itself to our Constitution, be a protection for citizens of the country as much as it is for government. She contends that the Bill is far from protecting ordinary citizens, as the Bill “sways dangerously in the favour of Government ... [b]asically, it means that any member of state can take what they want, when they want it, as long as it sits in the camps of ‘for public purposes’ or ‘in public interest’ – as defined by.. well, the government”.¹⁰⁹

Lastly, the matter of foreign ownership cannot be ignored. In June 2014, the Minister of Rural Development and Land Reform, Gugile Nkwinti, also introduced new legislation prohibiting foreigners from owning land in South Africa and limiting land sizes for all other owners in the country. At the time of writing, the Acquisition and Disposal of Land by Foreign Persons Bill was destined for public consultation before heading to Parliament. Not surprisingly, this prompted negative responses from the business sector. Real estate agents like Andrew Golding, chief executive of Pam Golding Properties, remarked that the proposed legislation is “completely ill-conceived” and based on “a misconception that foreigners are pouring into South Africa and pushing prices up”. Suffice it to say that land reform in South Africa remains a sensitive issue and a matter of serious political contestation and great uncertainty.¹¹⁰

Conclusion

In popular writings, current-day South Africa is often depicted as a 22-year old democracy with a mixture of colossal successes and grave failures. South Africans of different races now mix easily, with only occasional incidents of

108 A Jeffery, “New Expropriation Bill is out – and it’s still unconstitutional”, *BizNews.com*, 18 February 2015 (available at <http://irr.org.za/reports-and-publications/articles-authored-by-the-institute/new-expropriation-bill-is-out-2013-and-it-2015s-still-unconstitutional-2013-biznews-com-18-february-2015-1>, accessed, 23 March 2016); *News24*, “MPs pass ‘problematic’ Expropriation Bill”, 23 February 2016, (available at <http://www.news24.com/SouthAfrica/Politics/mps-pass-problematic-expropriation-bill-20160223>, accessed, 18 March 2016).

109 A Jeffery, “New Expropriation Bill is out ...”, *BizNews.com*, 18 February 2015.

110 *Reuters*, “South Africa seeks to limit foreign land ownership – Minister”, 23 July 2014 (available at <http://af.reuters.com/article/southAfricaNews/idAFL6N0PY2NI20140723>, accessed, 22 November 2014).

serious racial hostility. Since 1994 life has generally improved for millions of black citizens who now have open access to schools and universities and equal employment opportunities. The white minority no longer dominates what once had been white preserves of power in government and a sizable black middle-class has become a feature of society.

Government has indeed made marked strides in providing housing, water, electricity and health care to many people who were deprived of these amenities under the apartheid regime. At the same time, government failure to provide or facilitate sufficient housing, water, electricity and jobs to millions of have-nots has increasingly frustrated large impoverished sections of the population. As a result, violent protests have become a common phenomenon in South Africa.

From a perspective of political risk analysis, it can be argued that in certain respects, little has changed in South Africa since Albert Venter in the mid-2000s presented his analysis on the broad macro-political risk image of the country. Political risks – such as war, revolution, a coup d'état, military involvement in politics remain relatively low. The variable of violent racial or ethnic conflict, however, seems to be of more concern compared to the 2000s. Most important in the South African context, is the political risk posed by social and political-economic variables as argued in the discussion above. In fact, social risk in the form of violent service delivery protests and other manifestations of protest has markedly increased since the mid-2000s and must be cited as a factor of the highest concern in any consideration of forces and future events that could negatively influence investor confidence. Another factor spelling high social risk is that of extremely high levels of unemployment, which coincide with low levels of education and unschooled labour in South Africa. Youth unemployment also remains one of South Africa's most acute challenges, which must be factored into in any discussion on South Africa's future political landscape.

Furthermore, a number of other factors also pose high degrees of political risk. These pertain to a lack of solid and visionary political leadership, corruption and inefficient government administration, especially at municipal level, and certainly in the field of electricity supply. It also pertains to a rigid business environment and inflexible labour policy, and finally, to policy uncertainty about the interventionist intentions of the government in agricultural land reform.

So, where does that leave political analysts in their assessment of risk in South Africa? Political risk specialists argue that the most realistic risk scenario for South Africa over the next five years is “more of the same”. A more optimistic but highly unlikely scenario is one that shows a significant improvement in governance and in the fight against corruption, coinciding with strong leadership on key domestic issues by decision-makers in the ruling ANC and government at large. The worst-case scenario is one in which the ANC adopts a “nationalistic” approach, in policy as well as rhetoric, leading to corruption filtering through to affect all levels of bureaucracy, and in which the tripartite alliance eventually breaks down.¹¹¹

In the final instance, violence and/or dissatisfaction associated with labour unrest, xenophobia and insufficient electricity supply have evoked distinctly negative reactions inside and outside the country, although there is no reason for a sense of doom and gloom. Based on the above analysis, it seems that South Africa is probably still in the medium-risk category, but it must be clear that political risk has increased in certain areas over the past decade. Hence, the pressing question is whether South Africa has been moving into ‘high-medium risk’ in recent times, and this is currently key to analysts, scholars and practitioners who concern themselves with political risk in South Africa.

111 A Visser, “Little improvement seen in South African risk scenario”, *BDLive*, 12 February 2014 (available at <http://www.bdlive.co.za/economy/2014/02/12/little-improvement-seen-in-south-african-risk-scenario>, accessed, 24 October 2014).