

**UNIVERSITY OF THE FREE STATE**  
**DEPARTMENT OF POLITICAL STUDIES AND GOVERNANCE**

**Topic:**

Revisiting Political Risk in South Africa in 2023

Name of the student: Amanda Davidson

Student Number: 2018721056

Module: POLS3734

Lecturer: Prof TG Neethling

Due date: 5 April 2023

**I am familiar with the UFS policy on plagiarism and the departmental/university penalty clauses. I declare that the enclosed assignment is my work, that I have acknowledged all my sources, and that I have not lent out my work to a fellow student.**

**Signature:** A. L Davidson

**Date:** 5 April 2023

## TABLE OF CONTENTS

1. Introduction .....	3
2. Political Risk Analysis: A conceptual clarification.....	4
3. Measuring Political Risk in South Africa: Four Indicators.....	5
3.1. Administration Incompetence in Government.....	5
3.2. Safety and Security .....	6
3.3. Macro- Political and Economic Circumstances.....	8
3.4. Labour Policy.....	9
4. Conclusion .....	10
5. Bibliography .....	12

## 1. INTRODUCTION

South Africa is the southernmost country on the African continent. It has a rich history, culture, and economy. It is one of the most diversified and thriving African nations. South Africa, despite being a democracy, has experienced several political risks over the years, which have seriously affected the country's economic and social stability. In 2005, Professor Albert Venter at the University of Johannesburg's Department of Politics and Governance evaluated the macro-political risk in South Africa and classified it as 'medium' (Venter, 2005:28). Despite this, the dynamics of his analysis have changed over time.

There have been significant changes in the political leadership of the country, and the political landscape has changed dramatically in general. In light of South Africa's current political, economic, and social conditions, it is unclear whether potential investors are at greater risk than they were in the mid-2000s. As a result, a new evaluation of pertinent indicators or variables within the context of South Africa is required. Additionally, it calls for a well-thought-out investigation that is supported by evidence and can be independently verified.

This study examines the political risks that exist today in South Africa in this context. It employs a group of variables or indicators frequently used in risk-analysis frameworks. This distinction will be investigated by utilizing a literature review made up of books, scholarly journals, and newspapers. Understanding the concept of "political risk," which Howell (2007) defines as "the likelihood that political verdicts and occurrences in a state will disturb the business environment to the extent that investors will suffer a loss in the capital they invested, or that the returns they should receive will not be as much as they had invested," is essential to comprehend a key portion of the study." Considering the need for a new and thorough assessment of political risk in South Africa, the study on which this discussion is based attempted to determine or evaluate continuity and change in South Africa's political risk profile. To conduct the study, the first section introduces the reader to the conceptualization of political risk, and the second section will be based on the chosen variables or indicators in the academic work of Fouche (2003) and Venter

(2005), namely; Administration incompetence in government; Safety and security; Macro political and economic circumstances; and Labour policy. However, this will allow for a section that can offer a reliable academic conclusion.

## **2. Political Risk Analysis: A Conceptual Clarification**

Political risk is a multifaceted and complex concept that crosses several disciplines. To understand and comprehend political risk, one must first understand it from a disciplinary standpoint. Political risk, for example, is commonly defined as the risk of financial or other losses as a result of political issues such as government actions, instability, and sociopolitical upheaval (Edwards, Kucukaltan & Calikyay, 2019:20). It can have an impact on a variety of business operations, such as investment decisions, supply chain management, and market entrance strategies. Political risk, according to Mokhele (2019:11), has a diverse epistemology and significance across disciplines as opposed to within a field. For instance, political risk frequently captures the concern of managing exogenous factors that may affect market conditions in studies of international business (Jarvis, 2008:2). According to Howell (2007), political risk refers to "the likelihood that governmental actions or events in a country can alter the business climate in such a way that investors will lose money or gain less than they anticipated when the investment was made." However, Schmidt (1986) defined political risk as "the imposition of host government regulations that restrict the commercial operations of a specific foreign investment".

For a political scientist on the other hand, political risk pertains to the use of power and the harm it causes to individuals, groups, non-state actors, and the international order. Additionally, political risk also includes elements that might obstruct the efficient operation of governmental institutions, the upholding of legitimate authority, and the advancement of both domestic and global society. According to Jarvis (2008:6), political risk is characterized as a condition of instability characterized by acts of civil disobedience, a lack of public trust in the government, subpar public services, and a failure of the state as a whole at the domestic level.

Political risk was given as an element of states that were at risk, explaining why these governments were in debt, but not solely because of economic concerns (Sottilotta, 2013:1). Yet, the political risk might be distinct as the likelihood that an investment's success could be hurt or interrupted by unanticipated occurrences in a political environment or state legislative acts affecting global investors' rights to their property. In this case, political risk analysis would have to be approached with caution, taking into account both national political regimes and global factors (Sottilotta, 2013:6). Overall, political risk is an important factor for businesses, investors, and governments to consider when making decisions. To reduce possible losses and preserve business continuity in the face of political uncertainty, it is critical to identify and manage political risk.

### **3. Measuring Political Risk in South Africa: Four Indicators**

As previously stated, using a chosen set of indicators or variables that are frequently and internationally used in risk analysis frameworks is the purpose of this study. This paper aims to revisit and explore the current political risk in South Africa. Additionally, this paper makes no claims to be an exhaustive analysis of political risk; rather, it aims to establish a foundation or course for four of the most crucial indicators or variables needed to ascertain South Africa's current political risk profile at the time of writing.

#### **3.1. Administration Incompetence in Governments**

In contrast to a government that is open to its people, one that is not sensitive to their needs will most likely develop into an oppressive and exploitative populace (Fouche, 2003:37). In light of these circumstances, Venter (2005) considered this variable to be a crucial political risk indicator for those looking to invest in South Africa (Neethling, 2015:92). This observation occurred concurrently with the riots that occurred at local governments as a result of their poor performance and service delivery.

To begin with, administration incompetence has long been an issue in the South African government. This issue has harmed the country's economy, social services, and political stability. In recent years South Africa had faced problems with administrative

incompetence in government, which has hampered the country's progress toward economic growth and development. The problem is broad, affecting a variety of areas such as health, education, and public service delivery (Tredoux, 2022:4). Administrative incompetence, for example, has resulted in poor management of the COVID-19 pandemic, leading to a slow vaccine rollout and insufficient medical supply distribution.

Similarly, it has resulted in bad infrastructure, insufficient resources, and poor academic performance in the education sector (Mchunu, 2022:3). Administrative incompetence, according to Jansen (2021:2), has significant political implications for the South African government. Firstly, it erodes public trust in government institutions and leadership. This lack of trust leads to social unrest, political instability, and economic insecurity. Second, it harmed the government's capacity to provide fundamental services to its residents, leading to widespread discontent and disenchantment (Jansen, 2021:2). However, this dissatisfaction might lead to poor voter turnout, further undermining the government's legitimacy.

Moving forward to 2023, the question is whether administrative incompetence in government is still a political risk factor. Yes. The lack of performance at the local government level is an obvious sign of weak governance at the local level. This problem originates from a lack of required skills and competency, as well as unethical behavior on the part of government officials. In South Africa, the majority of municipalities are buried under debt, with the quality of their work and worsening audit results. It is impossible to overstate the inconsistent nature of service delivery (Runji, 2023: internet). Is this the kind of country where investors would want to put their money? However, administration incompetence remains a huge political danger in South Africa, and the situation is deteriorating.

### **3.2. Safety and Security**

South Africa is dealing with a high crime rate that is linked to apartheid's legacy of discrimination and economic marginalization, which restricted the majority to the outside of the mainstream economy (Mokheke, 2019:81). Violent crime is a tautological definition of South Africa's crime state because of the extreme brutality and callousness that go

along with it. To maintain order or uphold the law, safety, and security are necessary. The crime rate in South Africa as well as societal corruption were examined by Venter (2005) using this variable. Given the Zuma administration, South Africa's risk profile in this area is significant. It stands to reason that a high-risk profile would make FDI (foreign direct investment) challenging (Mokhele, 2019:81).

In South Africa, safety and security have long been important political risk indicators. According to the South African Police Service (2021:21), the country has one of the highest rates of crime in the world, with violent crimes like murder, rape, theft, and corruption being particularly common. This has created a sense of insecurity among the public, as well as detrimental consequences for the country's economic growth and foreign investment. Twenty to thirty percent of South African women have reported experiencing gender-based violence in the last few years (Stapelberg, 2016:6). The impact of such GBV has resulted in widespread social unrest in the form of protests and strikes; there has also been a link between the rise of gender-based crime and an increase in HIV/AIDS risk because so much GBV or crime manifests itself in the form of sexual assault and abuse (Khumalo, 2020:8). This risk creates a high-risk environment for investors, who therefore condemn and reject it. The country also experienced multiple terrorist attacks, including one in 2019 on a Mosque in Verulam and another in 2021 on a Christian church in Zuurbekom (Bruce, 2022:4). However, these assaults have revealed South Africa's security infrastructure's vulnerability and raised concerns about the government's capacity to avoid similar crises. South Africa has experienced a spike in societal unrest in 2021. The most significant of these occurrences was the recent protest that occurred when former President Jacob Zuma was arrested. The protests swiftly turned violent, with looting and property destruction reported in numerous major towns across the country. The South African National Defense Force (SADF) was called in to help the police in restoring order (Mokheke, 2019:92).

Moving forward to the year 2023, it is regrettable that crime rates are still rising in South Africa and that safety and security remain significant risks. A rise in violent crimes like murder, assault, and rape is currently occurring in South Africa, making it challenging for the police to maintain law and order in the country. More than 2 million crimes, including

illegal gun ownership, drunk driving, drug use, and illegal drug sales, were reported between 2022 and 2023 (Sicetsha, 2023: internet). Political unrest, protests, and strikes are typical occurrences, posing hazards to investors. Due to insufficient resources and allegations of corruption within the police force, law enforcement in South Africa is now a subject of concern for investors seeking confidence that their firms would be safeguarded by the government. Nonetheless, the fact that these rates of criminal activity affect people's safety and security as well as the security of businesses and other institutions, cannot be denied or discounted.

### **3.3. Macro-Political and Economic Circumstance's**

There has not been much of a transformation looking at the current and recent political and economic situation in South Africa. South Africa faces a variety of political risks, with macro-political economic conditions playing a crucial role. The country has undergone a turbulent economic and political climate in recent years, with high levels of unemployment, inequality, and corruption. The continual swings have increased political risk, which has a huge impact on investors and businesses (Mokheke, 2019:70). Since the end of apartheid, the country has been in political turmoil, with the ruling African National Party (ANC) unable to deliver on its promises of economic progress and social welfare. Cyril Ramaphosa, the current president, took office in 2018, promising to clean up corruption and revitalize the economy. However, his efforts have been thwarted by ANC factionalism and opposition from some of the party's most powerful figures. Additionally, the COVID-19 epidemic has exacerbated the country's economic difficulties (Mokheke, 2019:72) The economy has been struggling to recover from the pandemic, with high levels of unemployment, inequality, and social unrest. According to reports Statistics South African (2022:2), the high unemployment rate in South Africa was 34.4% in the fourth quarter of 2021. What is more, the public debt in South Africa as a percentage of GDP (Gross Domestic Product) is predicted to increase to 88.9 percent in 2023 from 82.6% in 2021. This high level of public debt, however, puts the nation's financial stability in danger, leading to a downgrade in the country's credit rating, higher borrowing costs, and restricted access to global capital markets (The National Treasury. 2022:15).



The macro-political economic circumstances in South Africa have considerable influence, particularly on the decisions of investors to invest in the country. For example, the recent unrest in July 2021, which resulted in massive looting and devastation, has heightened investor fears about the country's stability. Furthermore, the government's planned constitutional reforms to allow for land expropriation without compensation has prompted investor worries about property rights in the country (The National Treasury, 2022:32). Political instability is another key macro-political economic situation in South Africa that threatens the country's stability and growth potential. South Africa's leadership has changed often in recent years, with four presidents in the previous decade. As a result, policy uncertainty has increased and essential economic measures, such as addressing the country's energy issue and adopting structural reforms to boost the country's competitiveness, have been delayed (The National Treasury. 2022:32).

Corruption, on the other hand, threatens the stability and economic potential of the country. South Africa ranks 69th out of 180 countries in its corruption perceptions index, indicating a relatively high level; of corruption in the country. As it distorts competition, discourages investment, and raises the cost of doing business, it can be argued that corruption inhibits economic growth and development (Transparency International. 2021:2). As such, before making any investment decisions, investors must examine these risks. South Africa, on the other hand, continues to provide appealing investment prospects, and investors may mitigate these risks by conducting rigorous research and due diligence.

### **3.4. Labour Policy**

Labour policy in South Africa has been an ongoing point of contention and a significant political risk, particularly in recent years. The economy of the country is highly based on labor-intensive industries like mining and agriculture, which employ millions of people (Bhorat, 2019: internet). As a consequence, labor policies have considerable influence on the country's economic development and stability, making it an important aspect to consider for investors and enterprises. The government, labor unions, and the private sector have recently developed a more contentious relationship as a result of South Africa's labor policy. The labor laws of the country are among the most extensive and

progressive in the world, with robust protections for employees' rights, including the ability to organize and bargain collectively (Harvey, 2022:78). However, the private sector frequently views these protections as a barrier to economic progress, resulting in tensions and conflicts between firms and labor unions (Harvey, 2002:78). According to Schwab (2019:538), South Africa is ranked 129 out of 141 economies for strict hiring and firing practices, 134 for businesses' inflexibility in setting wages, and 26 for employees' rights in 2019/2020. In regards to this, South Africa has the worst labour employee relations in the world. In 2019, the South African government implemented the (NMW) National Minimum Wage Act. The Act mandated a minimum wage of R20 per hour for the majority of workers, to decrease poverty and inequality in the country (van de Westhuizen, 2022:56). Yet, some believe that the NMW would raise unemployment since small enterprises will be unable to afford higher salaries. Moreover, South African labor relations have been marked by periodic strikes and work stoppages. This heated atmosphere adds another layer of political risk for companies doing business in the nation, while labor organizations like the Congress of South African Trade Union (COSATU) campaign for workers' rights and better working conditions (van de Westhuizen, 200:56). The bottom line is that, looking at the current stage 2023, labour policy in South Africa remains a political risk owing to continuous disagreements about the NMW and the influence of labor unions on economic activity. As a result, many businesses are wary of investing in a country with weak growth, ineffective laws, and volatile currency rates.

#### **4. Conclusion**

From the standpoint of political risk analysis, one could argue that while not much has changed since Albert Venter's macro-political risk analysis in 2005, things in South Africa have gotten significantly worse. As previously indicated, this country has the potential to become great, but there appear to be certain impediments. Yet, as previously said, political risk is a key source of worry in South Africa. This composition was an attempt to examine only four selected political risk variables. First, administration incompetence in government was discussed, specifically how it greatly impacted the country, and it was determined that administration incompetence in government has contributed to the country's economic and social issues, as well as a lack of faith in government institutions.

This political risk element is still influencing the present scenario in South Africa. The study also examined safety and security, macro-political and economic circumstances, and labour policy. In short, South Africa's situation is worse rather than improving, increasing political danger in the country. The goal of this study was not to provide a comprehensive discussion of the factors but rather to summarize the four variables and measure political risk in South Africa. It also hoped to assist the reader to comprehend what each of the variables described above means for the country.

## 5. Bibliography

- Bhorat, H. 2019. *South Africa's Labour Market: A situationer*. University of Cape Town.
- Bruce, D. 2022. Massacres and Atrocities are one part of SA's Crime Story, *Institute for Security Studies*.
- Edwards, V., Kucukaltan, B., & Celikyay, M. 2019. Political Risk in Emerging Markets: An Overview. *Journal of Management and Economics Research*, 6(1), pp. 13-24.
- Fouche, P.J. 2003. *A Political-Security Risk Analysis of Uganda*. University of Pretoria.
- Harvey, J. 2022. Labour Unions and Economic Growth in South Africa. In D. Davis (Ed), *Economic Growth in South Africa*. *Palgrave Macmillan*, 10(1), pp. 75-90.
- Howell, L.D. 2007. *The Handbook of Country and Political Risk Analysis*. 4<sup>th</sup> Edition, New York: Prs Group Inc.
- Jarvis, D.S.L. 2008. Conceptualizing, Analyzing and Measuring Political Risk: The Evolution of Theory and Method. *Lee Kuan Yew School of Public Policy Research Paper*, National University of Singapore. <http://dx.doi.org/10.2139/55rn.1162541> Accessed: 27 March 2023.
- Jansen, J.D. 2021. The Crisis of leadership in South Africa, *Springer Nature*.
- Khumalo, B. 2020. *Too Costly to Ignore-The Economic Impact of Gender-based violence in South Africa*. Cape Town: KPMG
- Mchunu, B. 2022. Education policy and practice in South Africa: *Historical and Contemporary issues*. Oxford University Press.
- Mokheke, K. 2019. *Political risk analysis of the Renewable Energy Sector in South Africa and the effect of Foreign Direct Investment*. University of Cape Town.
- National Treasury, 2022. Budget Review, Republic of South Africa. <https://www.treasury.gov.za/publications/igfr/2022/BudgetReview2022>.

- Neethling, T. 2015. Revisiting South Africa's Contemporary Political Risk Profile., *Southern African Peace and Security Studies*, 2(1), pp. 35-58.
- Runji, N. 2023. Local Government Crisis Rooted in Incompetence and Corruption. *Sowetan Live*. <https://www.sowetanlive.co.za/opinion/columnists/2023-02-11-localgovernment-crisis-rooted-in-incompetence-and-corruption>, Accessed: 28 March 2023.
- Schmidt, D.A. 1986. Analyzing political risk: *Business Horizons*, 29(4), pp. 43-60.
- Schwab, K. 2019. *The Global Competitiveness Report*, World Economic Forum. [www.weforum.org/gcr](http://www.weforum.org/gcr) . Accessed 30 March 2023.
- Sicetsha, A. 2019. 2018/19 crime stats: An overview of crime in South Africa. *The South African*. <https://www.thesouthafrican.com/news/2018-19-crime-stats-latest-an-overviewcrim-south-africa/> Accessed: 26 March 2023.
- Statistics South Africa, 2022. Quarterly Labour Force Survey Quarter 4:2021, Republic of South Africa.
- Stapelberg, J. 2016. The Macro-Political Risk Factors of South Africa and the Consequences for Foreign Investment. Department of Political Science. University of Stellenbosch.
- South African Police Service. 2021. Crime Statistics 2021/2022. <https://www.saps.gov.za/services/crimestats.php>. Accessed: 30 March 2023.
- Sottolotta, C.E. 2013. Political Risk: Concepts, Definitions, Challenges. *LUISS School of Government*. [https://www.researchgate.net/publication/267736283\\_Political\\_Risk\\_Concepts\\_Definitions\\_Challenges](https://www.researchgate.net/publication/267736283_Political_Risk_Concepts_Definitions_Challenges) . Accessed: 28 March 2023.
- Tredoux, C. 2022. The South African COVID-19 vaccination Programmed: A case of administrative failure. *Journal of Public Health Policy*, 43(1), pp. 1-7.

van de Westhuizen, C. 2022. National Minimum Wage and Employment in South Africa. In A.S. Du Toit (Ed). *Labour Market Dynamics in South Africa*. Oxford University, 7(1), 53-68.

van Schalkwyk, F. 2017. *Open data and the fight against corruption in South Africa*. Transparency International.

Venter, A. 2005. A Comment on Current Political Risks for South Africa. *Institute for Strategic Studies*, 28-54.