“Comprehensive political risk assessment of South Africa: 2014”

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ARTICLE INFO	Sharlene Barnard and Piet Croucamp (2015). Comprehensive political risk assessment of South Africa: 2014. *Problems and Perspectives in Management*, *13*(1-1), 131-142
RELEASED ON	Friday, 10 April 2015
JOURNAL	"Problems and Perspectives in Management"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

SECTION 1. Macroeconomic processes and regional economies management

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Comprehensive political risk assessment of South Africa: 2014

Abstract

South Africa is classified as a middle-income state with ample supply of resources, a well-developed communication, financial, energy, legal and transport sector, and a stock-exchange ranked among the top twenty-five in the world. The risk factors that arise in South Africa's external environment, such as contracted economic growth in the Eurozone and the consequences of quantitative easing in the USA (the potential outflow of capital from developing markets), are indicators of instability to the economy, but over which the country has minimal jurisdiction. Internal risks have been on the rise in the form of an inflationary current account deficit, declining mining and manufacturing outputs, coupled with escalating corruption in the public and private sectors. The purpose of this paper is to provide a comprehensive political risk assessment of South Africa based on 12 identified risk indicators. Research for this paper includes various articles, risk reports and wide ranging factual research. South Africa is measured as a medium to moderate risk state.

Keywords: poltitical risk, risk indicators democracy, corruption, quantitative easing, South Africa, middle-income country, labor, rule of law.
JEL Classification: O55.

Introduction

Political risk differs from financial and economic risks and variables, in the sense that it is difficult to quantify and it is seemingly subjective. It is imperative to take into consideration that risk indicator scores are ultimately based on qualitative judgements and research. In 2013 the key question is thus, which current, temporary and prevalent conditions and events in South Africa's political landscape represent general or particular risks to both the political and economic stability of South Africa. This paper will provide a comprehensive political risk assessment of South Africa, focusing on 12 different political, economic and social indicators. The paper will begin with providing a fundamental risk assessment, paying attention to the concepts of risks, the 12 risk indicators that are employed and how these indicators may relate to one another. Secondly, the paper will provide a technical political risk index in a table format and provide a discussion thereof. Thereafter, the paper will discuss the most likely political risk scenarios investors can expect in three years' time in South Africa. The paper will conclude by stating whether South Africa is a low, medium, moderate or high risk.

1. Fundamental risk assessment

This paper is concerned with political risk, but it is known in political phenomena that political occurrences and economic trends are related to each other and therefore, is assessed conjointly in this assessment. In the context of this assessment, it is assumed that political stability, social stability and economic stability and growth are key determinant which affect the political risk of South Africa. It is vital to note that risk is frequently more a perception than reality, but it is an important determinant in decision making processes (Croucamp & Malan, 2011, pp. 156-157).

This risk assessment of South Africa is based on 12 indicators as mentioned above, and is to an extent based on the Political Risk Services (PRS) index which is constructed on political risk ratings. This risk assessment of South Africa is conducted by means of assigning risk points to numerous factors, known as indicators of political risk. The lowest amount of points that can be assigned to an indicator is zero. The maximum amount of point that can be assigned to an indicator is dependent on the fixed weight that each indicator carries (Political Risk Services, 2013: Internet). The 12 indicators are democratic quality, political rights, civil liberties, corruption, percentage of Gross Domestic Product (GDP) growth annually, labor freedom, rule of law, property rights, social unrest, open budget, investment freedom and military expenditure as a percentage of GDP. It should be noted that the indicators are adapted and domesticated from the Democratic Quality Index, Freedom House Index, Corruption Perception Index, Economist Intelligence Unit, the Index of Economic Freedom, Open Budget Index, World Bank and the Stockholm International Peace Research Institute indicators and statistics in order to provide a comprehensive risk assessment of South Africa.

1.1. Explanation of the 12 risk indicators. The section will aim to explain the 12 identified risk indicators in depth, and include the variables that might affect each indicator. This section will also indicate how each indicator is scored in the tabled political risk index.

1.1.1. Democratic quality. The democratic quality indicator ranks states according to the quality of democracy it sustains. Democratic quality focuses on numerous variables such as political, economic, environmental, gender equality, socio-economic equality, educational equality, health and knowledge (Democracy Raking, 2012: Internet). Key factors which affect the democratic quality of a state are, free and fair elections, level of rule of law sustained, extent to which the judiciary is independent, political rights and civil liberties enjoyed and the level of corruption (Graham, 2013, pp. 2-3). The levels and quality of democracy is an important indicator in assigning political risk, as democratic states enjoy much higher freedoms and liberal economies compared to other regime types (Democracy Raking, 2012: Internet). The democratic quality indicator ranks states on a scale ranging from zero to 100. Zero indicating very low democratic quality, and 100 indicating very high democratic quality. It is important to note that no state scores an absolute zero, or an absolute 100 in terms of the quality of democracy (Barth, Campbell, Pölzlbauer & Pölzlbauer, 2012: Internet).

1.1.2. Political rights. Political rights allow people to participate freely and without any restrictions in the political process. This includes the right to vote freely for any party or candidate in legitimate elections, enjoy the right to compete for public office, join political parties and organizations freely and elect any representatives who have an influential impact and who are accountable and responsible to voters. The political rights indicator evaluates the rights and freedoms that individuals enjoy within a state. The indicator assumes that freedom is best attained in liberal democratic states. This political rights indicator assess variable such as the electoral process, political participation and pluralism and the functioning of government. The political rights indicator assigns a rating based on a scale ranging from one to seven. One being the most political right freedoms enjoyed and seven, the least political right freedoms enjoyed (Freedom House, 2012: Internet).

1.1.3. Civil liberties. The civil liberties indicator focuses on the degree to which freedoms of expression and belief, organizational and association rights, rule of law and personal sovereignty is allowed with no interference from the state. The civil liberties indicator is based on the civil freedom individuals enjoy within a state. The civil liberties indicator includes variables such as, freedom of belief and expression, associational and organizational rights, rule of law, individual rights and personal autonomy. Similar to political rights, the civil liberties indicator assigns a rating based on a rating ranging from one to seven. One being the highest level civil liberties enjoyed and seven, the lowest level of civil liberties enjoyed (Freedom House, 2012: Internet).

1.1.4. Corruption. Corruption is a key indicator is assessing the level of transparency within a state, and is based on the perceived levels of public sector corruption. Corruption globally is a major issue, and its effects are broad and severe. High levels of corruption result into human suffering, a failure in delivering basic services including healthcare and education and it disrupts the building of infrastructure due to poor investments. High corruption rating can have seemingly negative effects on investments and increase the political risk of a state. High levels of corruption are globally an indicator of a state's political instability (Transparency International, 2012: Internet). In South Africa, corruption in pervasive and widespread even though, South Africa has no fewer than 10 anti-corruption agencies (Political Risk Services, 2012, p. 8). The corruption indicator is based on a scale ranging from zero to 100, zero being highly corrupt and 100, being very clear with no incidences of corruption. The lower a state moves down the scale the more corrupt the state is perceived to be (Transparency International, 2012: Internet).

1.1.5. Percentage of GDP growth annually. The percentage of GDP growth annually has become an important indicator in assessing and assigning political risk, as well as measuring the economic stability and growth of states. If GDP growth rates are high and growing, it results into growing business, increased jobs and personal income. If GDP growth rates are low, it results into businesses holding off investments and well as a decrease in hiring employees. It is known that investors will be hesitant to invest in states with low GDP growth (Amadeo, 2012: Internet). GDP growth annually is calculated and based on constant local currency. Aggregates are established on constant 2000 United States dollars prices. "GDP is the total of gross value added by all resident producers in the economy" plus added product taxes and minus any appropriations not included in the value of the products (The World Bank, 2012: Internet). GDP growth annually is calculated without making deductions for depreciated assets, or for the degradation and deprivation of natural resources. GDP growth annually is represented by a percentage scale, ranging from zero to any number, in most case it is never above 20. In some cases, annually GDP growth rates can even go into a negative, signaling a recession (The World Bank, 2012: Internet; & Trading Economics, 2012: Internet).

1.1.6. Labor freedom. Labor freedom is an important indicator in assessing how free a labor market of a state is. Labor freedom is usually an aspect of economic freedom and regulatory efficiency, and is a component of a states labor market. The labor freedom indicator is a based on numerous aspects of the legal and regulatory framework of a state's labor market, this includes the regulations concerning minimum wages, laws constraining dismissals, compensation, measurable regulatory restraints on hiring and the amount of hours worked. The labor freedom indictor is based on a scale ranging, from zero to 100. Zero indicating low or incomplete labor freedom and, 100 indicating high labor freedom (Index of Economic Freedom, 2013a: Internet).

1.1.7. Rule of law. The rule of law indicator indicates the extent to which the rule of law is established and sustained. The rule of law indicator is vital, as states with low levels of rule of law are considered as a higher risk compared to states with high levels of rule of law. Maintaining high levels of rule of law is argued to be an important factor which is advantageous to economic growth, overall economic performance and central to investment and other aspects of the economy (Barro, 2000: Internet, 34). The rule of law indicator assesses the extent to with individuals and organizations have confidence in and abide by the law. This indicator includes variables such as the functioning and independence of the judiciary as well as the police service, the protection of property rights, the quality of contract enforcement and the probability of violence and crime (Millennium Challenge Corporation, 2008: Internet). The rule of law indicator assesses the level of rule of law on a scale ranging from zero to 100. Zero indicating the lowest maintenance of the rule of law, and 100 indicating the highest maintenance of the rule of law (Ibrahim Index of African Governance, 2012: Internet).

1.1.8. Property rights. The maintenance of property rights is also considered vital to investment and economic activities of a state. Secure property right in a state is imperative for investment and economic growth. If property rights are poorly defined, it may lead to lower levels of business operation and in turn lead to decreased economic growth (Barro, 2000: Internet, pp. 31, 34). According to the Index of Economic Freedom (2013b: Internet) the property rights indicator assess the ability of individuals to secure private property, which are protected by property law and are enforced by the state. The property rights indicator measures the extent to which state laws protect and secure private property rights. It is also indicative of the possibility of expropriation. The property rights indicator assesses the level of legal protection of property rights and ranks states on a score ranging from zero to 100. The higher the state score, the more legal protection exists for property rights. The lower the state score, the weaker the state's property rights are, and the increased likeliness there is that property may be expropriated.

1.1.9. Social unrest. According to the Economist Intelligence Unit (2009: Internet) social unrest is conceptualized as the events that pose a severe threat to governments or the existing political order of a state. Social unrest occurs when political, economic or social stress increases gradually, and is released unexpectedly in the form of a protest or strike. Social events that lead to unrest are usually accompanied by public disorder and violence (Barha, 2012: Internet). Social unrest has severe negative consequences for the government and well as the economy of a state, and has in some cases led to government collapse and serious disruptions. The threats that social unrest pose has grown in prevalence in the last few years, and has become an important indicator is assigning and assessing political risk. The social unrest indicator is based on a scale from zero to 10. Zero indicating the lowest risk to social unrest, and 10 indicating a very high risk to social unrest. Although the scale ranges from zero to 10, no state ever scores a zero, therefore no state is free from the risk of social unrest (Economist Intelligence Unit, 2010: Internet).

1.1.10. Open budget. The open budget indicator indicates the level of budget transparency, accountability, participation and oversight in a state's budget. The open budget indicator is important, as it provides vital information concerning the openness and transparency of states' budgets. A state's budget may heavily impact citizens and broader society regarding the delivery of basic services, such as healthcare and education. The open budget indicator is critical, as almost half of the world's populations are not engaged in the budgeting processes. The budget indicator is based on a scale ranging from zero to 100. Zero indicating the least transparency, accountability, participation and openness, and 100 indicating the most transparency, accountability, participation and openness. States can also be divided into five categories regarding the level of information in their budget. These categories are as follows, state representing extensive information, significant information, some information, minimal information and no or limited information. The higher a state scores, the more open the budget of the particular state is (International Budget Partnership, 2012: Internet).

1.1.11. Investment freedom. According to the Organization for Economic Cooperation and

Development (2011: Internet) investments particularly international investments stimulate economic development and wealth in states. The importance of investment freedom has increased due to the fact that most states rely on it for income, and is imperative for economic growth. The investment freedom indicator is based on the level of investment freedom within a state, as well as the policies which control investments. Variables which influence investment freedom are rules of domestic and international investments, access to foreign currency, payment restrictions and capital transactions. The investment freedom indicator assess states on a scale ranging from zero to 100, ideally economic free states, where there is little or no constraints on investment capital flow, will receive a score of 100. The more restrictions a state has, the lower the score becomes. In reality, most states have numerous restrictions on investments and different rules regulating domestic and foreign investment. Therefore, in reality no state can receive an absolute score of 100. Although, it should be noted that it is possible for a state to receive a score of zero (Index of Economic Freedom, 2013d: Internet).

1.1.12. Military expenditure as a percentage of GDP. A state's military expenditure is a key indicator of how militarized states are, generally states with high military expenditure are highly militarized, and more likely to be unstable. High level of military expenditure can often indicate high levels of military in politics. D'Agostimo, Dunne & Pieroni (2010, p. 28) argue that high military expenditure also has negative effects on economic growth. Military expenditure includes all capital and current expenditure on armed forces which includes peacekeeping efforts, defense ministries or departments and all other government agencies related to defense. Military expenditure as a percentage of GDP, is represented by a percentage scale ranging from zero to any number, but in most cases does not exceed 10 per cent of GDP. It should be noted that no state has an absolute zero concerning the percentage of military expenditure (Stockholm International Peace Research Institute, 2012: Internet; & The World Bank, 2013: Internet).

1.2. Relation between indicators. It is vital to note that the 12 indicators that are used in the assessment in many instances relate to one another, and regression is evident, where change in one indicator can affect change in another indicator. These indicators therefore do not function independently, but rather as a continuum of one another with interconnected characteristics. It will be noted that high levels of social unrest and corruption and decreased political rights and civil liberties may affect the democratic quality and overall stability of South Africa negatively and vice-versa. The extent to which rule of law and property rights are sustained effect one another interchangeably and consequently may also affect South Africa's democratic quality. The extent to which rule of law is maintained has an influence on civil liberties as well. Additionally, the extent to which labor and investment freedom is guaranteed also has a significant impact on annual GDP growth, and overall economic performance. The key indicators that may affect the overall stability of South Africa is corruption, levels of social unrest and annual GDP growth, therefore these three indicators are regarded as those who pose the highest risk as indicated below.

Table 1. Political risk index of South Africa

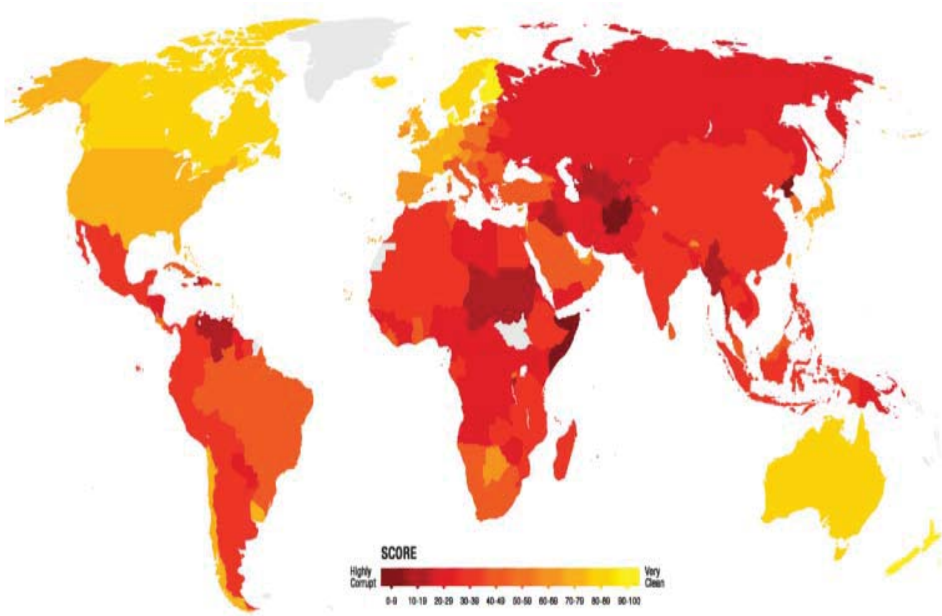
Indicators	Scale of measurement	South Africa's rating
1. Corruption	0-100	43
2. Social unrest	0-10	7
3. % of GDP growth annually	0-20	2.5
4. Labor freedom	0-100	55.6
5. Investment freedom	0-100	45
6. Civil liberties	1-7	3
7. Democratic quality	0-100	53.3
8. Property rights	0-100	50
9. Political rights	1-7	2
10. Rule of law	0-100	87.9
11. Military expenditure as a % of GDP	0-10	1.2
12. Open budget	0-100	90

2. Discussion of the tabled political risk index of South Africa and contending motivations

This above political risk index is a mixed scaled index making use of both ordinal and ratio scales to develop a comprehensive political risk index of South Africa. The indicators are ranged from the highest possible risk to the lowest possible risk posed. This political risk index can be used to assess and assign political risk within a state based on 12 risk indicators. By making use of this index it is possible to construct a political risk rating and a risk forecast for South Africa

2.1. Corruption. South Africa is currently ranked 66th out of 176 states globally, and has a corruption score of 43 out of a possible 100, as indicated in the above table (Money Web, 2012: Internet). South Africa has received this score due to the fact that South Africa is characterized by the extensive misuse of state money, acts of bribery, nepotism and widespread tender fraud within government. Corruption is not only evident at government level, but also in the South African Police Service and numerous parastatals (The Economist, 20 October 2012). According to the Black Management Forum, corruption is one of the largest threats to the South African economy (Fin24, 2013: Internet). Even though South Africa has no fewer than 10 anti-corruption agencies, which are mandated to address corruption, corruption remains a severe problem affecting the effectiveness of government (Corruption Watch, 2011: Internet).

2.1.1. Corruption perception index 2012.



Source: Transparency International, 2012: Internet.

Fig. 1. Corruption perception index 2012

2.1.2. Social unrest. South Africa achieved a score of seven concerning social unrest, and is considered a moderate risk. South Africa achieved a seven as it is characterized by protests, serious disruptions as well as private property destruction, and is in most cases marred by acts of violence and intimidation. South Africa level of social unrest has increased considerably since 2007 (The Economist Intelligence Unit, 2011: Internet). In period of 2011 and 2012, South Africa experienced 1091 unrest incidences, the highest has been since 2004. This recent increase in social unrest incidences has had severe negative effects for the South African economy, as well as annual GDP growth, as witnessed in 2012. This social unrest indicator indicates the level of threat posed to the government of South Africa, and is considered to pose a moderate though increasing risk (Mail and Guardian, 13 April 2012, p. 34).

Table 2. Social unrest in South Africa

Year	Peaceful incidences	Unrest incidences	Total
2004/05	7 382	622	8 004
2005/06	9 809	954	10 763
2006/07	8 703	743	9 446
2007/08	6 431	705	7 136
2008/09	6 125	718	6 843
2009/10	7 879	1 008	8 905
2010/11	11 681	973	12 654
2011/12	9 942	1 091	11 033

Source: Mail & Guardian, 13 April 2012.

2.1.3. Percentage of GDP growth annually. The percentage of GDP growth annually is a vital indicator in assigning and assessing political risk in South Africa. Investors may be hesitant to invest when annual GDP growth rates are low. South Africa achieved a 2.5 per cent annual GDP growth rate in 2012, for this reason the actual percentage is used in the above index. The 2.5 per cent was a decrease from 2011 figures of 3.1 per cent, indicating that South Africa's economic growth recorded a downturn due to the mining sectors negative contributions as of the wave of "wildcat" strikes experienced in 2012, and poor manufacturing outputs. Contributions made by the construction, electricity, gas and water industries were minor to the South Africa economy as well (South Africa.info, 2013: Internet). Decreased growth in Europe due to the Eurozone crisis has curbed South Africa's exports. This is due to the fact that Europe is South Africa's largest trading partner and plays a fundamental role in South Africa's economic growth. Therefore, the 2012 growth rates were generally modest with South Africa experiencing low growth rates compared to other developing states, and governments desired growth rate of 5 per cent (Cohen & Wild, 2012: Internet)

Source: www.tradingeconomics.com.

Fig. 2. South Africa GDP annual growth rate

2.1.4. Labor freedom. South Africa as indicated, achieved a labor freedom score of 55.6 out of a possible 100. This indicates that South Africa labor market is "mostly unfree", as states with a score between 60 and 50 fall into the "mostly unfree" category (Index of Economic Freedom, 2013c: Internet). South Africa's labor law allows virtually all workers to form and join trade unions, and labor strikes are protected under South Africa's labor law. Given this, it is vital to note that in South Africa labor regulations are not effectively applied, and it is littered by illegal strikes marred by acts of violence and intimidation. The fact that South Africa's labor market is largely unionized in some instances affects foreign investments negatively, as investors are somewhat sluggish to invest in highly unionized sectors. South Africa's labor freedom does considerably effect foreign investments (Hogg & Major, 2012: Internet).

2.1.5. Investment freedom. South Africa as indicated above achieved an investment freedom score of 45. This demonstrates that South Africa's investment freedom is somewhat "repressed", as state with as score of below 50 falls into the "repressed" category (Index of Economic Freedom, 2013a: Internet). South Africa has achieved this score as its economic freedom is not well established. South Africa's investment flows are not yet well institutionalized either, due to a lack of policies that ensure sustained investment flows and a lack of transparency. Investment freedom is seemingly repressed, as of restrictions that constrain efficiency of foreign investments. Private investment remains constrained as well, due to non-transparent laws and unfriendly investment policies (Political Risk Services, 2012, p. 1).

2.1.6. Civil liberties. In terms of the civil liberties indicators, South Africa achieved a rating of 3, signalling that South Africa's civil liberties are slightly weaker and not always compressively ensured. South Africa achieved this rating due to some limits of media independence, especially due to the passing of the Protection of Information Bill (Freedom House, 2012: Internet). The passing of this bill has indicated how government enforces it totalitarianism in policies even though government in democratic. This is only one example of the means of enforcing totalitarianism within policies, the Higher Education and Training Laws Amendment Bill that was passed in December 2012, is another example. Both these bills are in actual fact unconstitutional and encroach on the civil liberties of South Africa as well its overall democratic quality (ENCA, 2013: Internet). South Africa's civil liberties are further eroding due to government increased sensitivity to media criticism, some restrictions on trade union activities and the presence of discrimination against women and minority groups (Freedom House, 2012: Internet). Even though the Constitution prohibits discrimination and numerous policies are instituted to combat discrimination, it remains widespread in all corners. Wide spread reports and increasing acts of police torture and excessive force during arrests, interrogation and detention also encroaches on civil liberties in South Africa (Africa.com, 2012: Internet).

2.1.7. Democratic quality. South Africa is ranked 66th out of a 104 states on the democratic quality index, and is considered to be placed at the high end of "medium" in terms of democratic quality (Global Democracy Ranking, 2012: Internet). This indicates that regardless of the problems experienced, indicators of the quality of democracy are broadly representative and effectively guaranteed. Various factors that relate to democratic quality are notable in South Africa, such as the presence of consistent free and fair elections, noticeably strong rule of law, and independent judiciary with the Constitutional and Supreme Court operating with considerable autonomy, significantly improved political participation of women, a dynamic civil society and inclusive and wide ranging political and civil rights as indicated above as well as an active media engaged in a "watchdog" role (Graham, 2013, p. ii). South Africa rating is not in the top third of the world, due to its poor levels of individual security, high levels of corruption as indicated, undesirable effects of cadre deployment, widespread discrimination, growing inequality and poverty and the lack of efficient local governance (Graham, 2013, pp. 2-3). For these reasons, South Africa democratic quality score in located at 53.3 out of a possible 100, falling into the "medium" category of states. Even though democratic indicators are widely present, South Africa does consistently experience problems, hampering South Africa's effort of moving up in ratings.

Source: Global Democracy Ranking, 2012: Internet.

Fig. 3. Democracy ranking, 2012

2.1.8. Property rights. South Africa achieved a score of 50 concerning property rights, indicating that South Africa falls into the "mostly unfree" category. This indicates that South Africa's property rights are in some instances not properly defined, and the court system is inefficient and in some instances subject to delays. Corruption is ever present not just in South Africa as a whole, but also in the property sector. Although South Africa's judiciary is independent, it has often portrayed that it may be influenced by other government branches. This score also indicates that expropriation of property is possible, but rather unlikely (Index of Economic Freedom, 2013b: Internet). Currently, it is argued that South Africa's property rights are under threat due to South Africa's Land Reform policy, forced evictions, destruction of shacks and the confiscation of private goods which are often not in line with law (Kane-Berman, 2011: Internet).

2.1.9. Political rights. Regarding the political rights indicator, South Africa achieved a rating of 2, as its political rights may not be as comprehensively ensured compared to states such as Australia, Norway and other states with a rating of 1. South Africa achieved this rating due to the existence of political corruption, and limits on some functions of political parties and opposition groups due to one-party dominance (Freedom House, 2012: Internet). Attempts by the Africa National Congress (ANC) to tamper with media independence as of the Protection of Information Bill has raised severe concerns regarding government's commitment towards protecting political rights (Human Rights Watch, 2012: Internet).

2.1.10. Rule of law. South Africa achieved a rule of law score of 87.9 (Ibrahim Index of African Governance, 2012: Internet). South Africa achieved this score as its rule of law is moderately strong, and the South Africa legal system has gained much independence since 1994. It is important to note that high levels of rule of law are argued to be advantageous for economic growth, overall economic performance and vital for investments (Barro, 2000: Internet, p. 34). The passage of the Protection of State Information Bill is likely to have an adverse impact on South Africa's rule of law score, with an expected decrease in South Africa's score. High levels of corruption in South Africa and the National Prosecuting Authority ineffectiveness affects this score negatively to a certain degree. These events are steadily starting to erode South Africa's rule of law score, which poses negative effects for South Africa (Hoffman, 2013: Internet; & Institute of Security Studies, 2012: Internet).

Table 3. The top 10 Rule of law ranking states in Africa

Rank & courntry		Score / 100	6 year change
1	Botswana	96.6	0.0
2	Mauritius	94.4	1.6↑
3	Cape Verde	87.9	-2.2↓
4	South Africa	87.9	-1.5↓
5	Ghana	84.7	7.9↑
6	Namibia	84.0	-5.1↓
7	Niger	66.8	9.2↑
8	Seychelles	65.8	1.0↑
9	Malawi	64.3	-3.8↓
10	Lesotho	64.2	-1.3↓
11	Zambia	63.8	-5.4↓
12	Swaziland	62.5	-1.2↓
13	Benin	61.3	-4.0↓

Source: Ibrahim Index of African Governance, 2013: Internet.

2.1.11. Military expenditure as a percentage of GDP. South Africa's recent recorded military expenditure as a percentage of GDP was 1.2 per cent. Similar to the annual GDP growth, the actual percentage of military expenditure used is the above tabled political risk index. South Africa's military expenditure is seemingly low, due to robust global economic uncertainty. This 1.2 per cent indicates that South Africa is not highly militarised, with nearly no military in politics and is a moderately stable state. The current budget allocation for military expenditure in the 2012 and 2013 financial year is R37.5 billion. This was set aside for borderline control, the establishment of the Office of Military Ombud and the completion of strategic defence procurement plans (Pike, 2013: Internet; & Stockholm International Peace Research Institute, 2012: Internet).

2.1.12. Open budget. South Africa achieved a score of 90 in terms of the extent to which South Africa budget is open (International Budget Partnership, 2012, p. 7, see Appendix). South Africa achieved this score as its budget is one of the most open in the world, and allows for the extensive flow of information between government and civil society concerning the annual budget. This indicates that South Africa provides significant information about the budget and allows civil society to fully understand how public funds are raised and spent (International Budget Partnership, 2012, pp. 16, 20). It is vital to note that, South Africa has the highest levels of budget transparency achieved on the African Continent. The South African government also allows significant publishing of budget information. Key in affecting the open budget indicator, is South Africa's income levels, the current quality of its democracy, through elections and political competition within the legislature (International Budget Partnership, 2012, p. 20).

Thus, this above tabled political risk index of South Africa, and its subsequent discussion indicates that in some aspects South Africa is a high political risk. However, taking into consideration all 12 indicators it is necessary to conclude that South Africa is a medium to moderate political risk, and proposes a favorable environment for investment and growth.

3. Likely political risk scenarios expected in three years

This section will pay attention to the challenges facing South Africa, and the reasons to be optimistic or pessimistic about South Africa's future. The section will provide two future scenarios for South Africa. It is important to note that no probability is assigned to these scenarios as it would defeat the purpose. It is urged to assign equal probability to all scenarios. These scenarios provide as road markers in the direction South Africa is heading (Cronje, 2013: Internet).

3.1. The high road a New Dawn. The high road scenario proposes that South Africa's economic growth is expected to stay modest, as the strain on the manufacturing and mining sector is set to continue. The economy will continue to be driven by domestic consumption sustained by low interest rates. GDP growth will remained constrained at an expected 2.6 per cent, due to energy shortages, high unemployment and slow growth in wages. South African exporters and producers will experience another challenging year, as the recession in the Eurozone continues. Mining outputs is likely to remain hampered as of a lack of investment and continued strikes and large scale dismissals of miner workers. Operating conditions in South Africa is expected to remain tough due to high electricity cost, continued strained labor relations, decreased productivity and insufficient economic infrastructure. The trend towards a depreciation of the Rand may continue, although inflation will not exceed upper limits of 6 per cent (Global Edge, 2012: Internet; & South Africa.info, 2013: Internet).

Table 4. Forecast of GDP growth percentages

	2011	2012	2013	2014	2015	2016
Gross domestic expenditure	4.1	3.9	4.7	4.7	4.4	4.7
Total exports	5.8	3.4	4.7	6.2	6.2	6.4
Total imports	9.0	7.2	8.1	8.2	7.5	7.9

Source: Chitiga-Mabugu, 2014, p. 180.

Despite these challenges over this coming year, the next three years may see South Africa's investment rates increase. This may be due to more favorable economic circumstances, more liberalized investment policies, and subsequently GDP growth may average around government's target of 5 per cent. Due to increased GDP growth and favorable economic conditions, unemployment may start declining considerably. This may in turn lead to declining social unrest and protest incidences with protester resorting to more peaceful means of protesting. Increased economic growth and more favorable economic conditions may also decrease dependence on social welfare, and make it possible for government to reach its spending targets. The increase GDP growth and investment may produce desired revenue and business activity, in order to contain the current account deficit and the budget. This will be made more favorable by an end in the crisis in the Eurozone, and consequently increase South African exports (Cronje, 2013: Internet). The government is likely to continue to minimize constraints, boots education, assist in reducing crime and poverty and attract both domestic and foreign investments to spur economic growth (Policy Co-ordinating and Advisory Services, 2008, p. 16).

As the ANC and opposition parties prepare for the 2016 local government elections, it will result into spending pressures on the current ANC led government (Eurasia Group, 2014: Internet). The ANC government is likely to continue to enjoy majority support due to historical solidarities, but the ruling party lost a considerable amount of voters during the 2014 elections with its share of *eligible voters* declining from 39% to 36.7%. This may result into South Africa's one party dominant system maturing into a more competitive political system. The case may be that a more democratic and accountable government emerges, that can effectively deal with the challenges of South Africa (News 24, 2014: Internet).

3.2. The low road. The second scenario for South Africa is that political and social unrest may spread beyond the labor sector, and protests actions may take off exponentially (Cronje, 2013: Internet). The rise in social unrest incidences marred by increased tendencies to use violence and intimidation, may all the more register on the international radar. This will have disastrous effects for the South African economy, and lead to a growing disconnect between society and government (Munusamy, 2014: Internet). The most noteworthy political risk, is the risk of political violence as losers in the ANC separatist battles contemplate the next step (Eurasia Group, 2013: Internet). South Africa's current "investor friendly" measures and incentives might not to be enough to spur economic growth. South Africa may be unable to match the measures and incentives of more desperate, innovative and stable states around the globe, which will consequently lead to South Africa risking its attractiveness as a destination for fixed (foreign) direct investments. South Africa's domestic and international perception of corruption and crime that are considered high – and increasing due to institutional weaknesses – adds to perceptions about the country's risks. Acts of corruption may increase due to continued acts of embezzling, tender fraud, and widespread malpractice (Policy Co-ordinating and Advisory Services, 2014, pp. 23-33). Additionally, South Africa lags in investment figures achieved by other emerging markets and therefore, may result in GDP growth rates that will remain constrained at lower than 3 per cent which will be further strengthened by export declines as of the Eurozone crisis. This may fuel unemployment rates to remain at 25 per cent or increase, as South Africa experiences sustained periods of slow growth (Cronje, 2013: Internet; & SABC, 2014: Internet). South Africa may also experience that the current account and budget deficit will reach unsustainable levels, as South Africa spends more than it has and import more than it exports due to the Eurozone crisis. According to Cronje (2013: Internet) South Africa may experience increased weakening of the Rand, higher wage settlements and higher administration prices caused by inflation exceeding beyond the target of the South African Reserve bank of between 3 to 6 per cent. Regardless of government's commitment to more effectively distribute wealth, the reality of slow economic growth will make it difficult for government to keep up with the expectations it once created. Growth might never take off and reach the required 5 per cent with which to address unemployment and the government's poverty-relieve targets (Policy and Co-ordinating Advisory Services, 2014, p. 44). Looking further into the future, Cronje (2013: Internet) argues that the ANC will experience its electoral majority to decrease to below 60 per cent in 2019 and consequently, see the ANC losing the 2024 elections.

South Africa's position remains in doubt as its economy growth continues to be sluggishly. South Africa still has various institutional strengths, and there is no fundamental political crisis in sight, but South Africa may be heading in the direction that offers minimal reason for optimism (Eurasia Group, 2014: Internet).

Conclusion

This comprehensive political risk assessment of South Africa measured the political risk in South Africa based on 12 risk indicators. This comprehensive political risk assessment concludes that South Africa is considered a medium to moderate political risk. South Africa's level of political risk has increased over the past few years, and these political risks have become more devious and consequently more difficult to anticipate and mange. South Africa is also considered one of the lowest political risk states on the African Continent. Looking into the future, the key risks to watch out for in South Africa are increased labor strife and unrest, growing protests, high levels of unemployment which is likely to remain and increased acts of corruption. It is vital for investor wanting to enter the South African market to have knowledge of the level of political risk associated with South Africa, and what to expect in the next few years.

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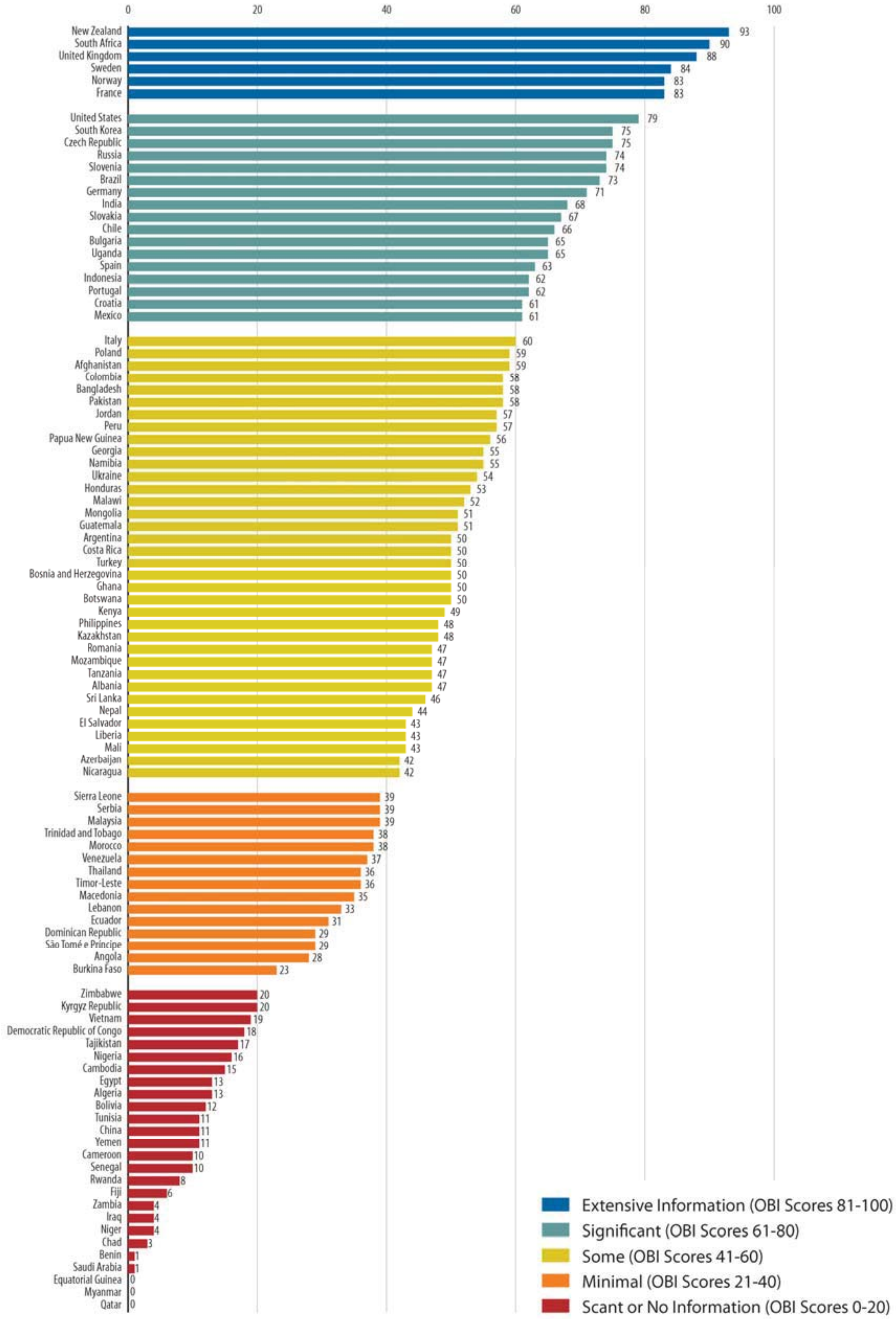
Appendix



Source: International Budget Partnership, 2012, p. 7.

Fig. 4. The open budget index 2012