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POLITICAL RISK IN SOUTH AFRICA FOR TAIWANESE INVESTORS

COURSE : MA INTERNATIONAL RELATIONS

ASSIGNMENT : 5 (SHORT-DISSERTATION)

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STUDENT NUMBER: 9707454

18 NOVEMBER 2003
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ABBREVIATIONS

AGOA - African Growth and Opportunity Act (AGOA)
ANC - African National Congress
AIDS - Acquired Immune Deficiency Syndrome
BERI - Business Environmental Risk Index
COSATU - Congress of South African Trade Unions
CPI - Corruption Perception Index
CSIR - Council for Scientific and Industrial Research
EWS - Early Warning System(s)
FDI - Foreign Direct Investment
GDP - Gross Domestic Product
HIV - Human Immunodeficiency Virus
IDASA - Institute for a Democratic Alternative for South Africa
KRV - Key Risk Variables
PRA - Political Risk Analysis
PRC - Peoples Republic of China
PMC - Private Military Companies
PRI - Political Risk Index
MRC - Medical Research Council (South Africa)
NEP - New Economic Policy (Malaysia)
NEPAD - New Partnership for Africa's Development
NGO - Non-Governmental Organisation
NIMSS - National Injury Mortality Surveillance System
NP - National Party
OPEC - Organisation of Petroleum Exporting Countries
OPIC - Overseas Private Investment Corporation
PMC's - Private Military Companies
PSSI - Political Stability Index
SACP - South African Communist Party
SME's - Small and Medium Size Enterprises
SAPS - South African Police Services
TI - Transparency International
UNICEF - United Nations Children's International Children's Emergency Fund
UPM - United Planning Machinery
US - United States
USS - United States Dollar
Introduction

Political risk analysis has only become recognized as an acknowledged specialty of significance within the ambit of international politics in the last forty years. Political risk is best defined – although somewhat broadly – by Jodice as being "changes in the operating conditions of foreign enterprises that arise out of the political process, either directly through war, insurrection, or political violence, or through changes in government policies that affect the ownership and behavior of the firm. Political risk can be conceptualized as an event, or a series of events, in the national and international environment(s) that can affect the physical assets, personnel and operations of foreign firms" (Jodice, 1985: 5).

The abovementioned position can be narrowed down to two major schools of approach on political risk, namely that political risk arises from the actions of governments who interfere via their political and economic policy in the function and activities of foreign owned business, and those who view political risk in terms of events – either political acts, constraints imposed upon the firm or a combination of both. Although there are some differences within this second approach, all equate political risk with either environmental factors such as instability and direct violence or constraints on operations such as expropriation, discriminatory taxation, public sector competition and the like (Kobrin 1979: 67).

Although not as prevalent today as it was during the 1950's through to the beginning of the 1980's, the threat of nationalization, particularly in the Developing world is also a cause for concern within the field of political risk analysis.

The ultimate objective of political risk analysis is to reduce the level of costly and objectionable surprises that a firm might encounter within the terrain of conducting international business (Drodnick 1984: 318).
This paper provides an overview of the most relevant theories and approaches pertaining to political risk analysis. The present status of political risk analysis as viewed by academia, multinational and smaller companies are included. Macro and Micro Political risk is discussed as is the practical utilization of portfolio analyses and the use of various Indiciders and ratings. The relevance of scenarios is researched as well as its status and its practical utilization.

This paper comprises three components. The first section presents a framework for analysis, and will explain the structure of the study. The present status of political risk analysis is reviewed as is macro and micro political risk, country risk and portfolio analyses. Trends and utilizable early warning systems and the status of scenarios are examined.

The second part of the paper will study the present situation in South Africa from a macro and micro political risk perspective. South Africa, as an investment destination, is evaluated and those factors that influence macro political risk for the country are discussed.

The final section will look at South Africa's potential as an investment destination for a prospective Taiwanese investor who (theoretically) intends to establish himself in the country specifically within the textile industry. This portion of the paper also investigates how a future South Africa might look in the year 2007 and again in 2017. Different sets of scenarios have been incorporated with a probability rating given for each scenario.
Section 1: A Framework for analysis

This section outlines the methodology that is used to analyze a country within the specialty of political risk analysis. There are numerous approaches to political risk analysis that are utilized according to a range of approaches and set of circumstances. This paper is too short to provide a detailed analysis of the various approaches such as the traditional, non-empirical, qualitative methods, quantitative analysis or a combination of both approaches.

1.1 Types of risk analysis

Some approaches/models seem to be utilized more frequently than others. In a survey conducted by Kobrin regarding the status of methods used by political risk analysts (Frei & Ruloff, 1988: 5), the respondents identified the following models in order of popularity:

<table>
<thead>
<tr>
<th>METHOD</th>
<th>PERCENT OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Qualitative Method</td>
<td>46.1</td>
</tr>
<tr>
<td>Standardized Checklist</td>
<td>30.1</td>
</tr>
<tr>
<td>Scenario Development</td>
<td>26.1</td>
</tr>
<tr>
<td>Any Quantitative Method</td>
<td>19.2</td>
</tr>
<tr>
<td>Structured Qualitative Format</td>
<td>16.1</td>
</tr>
<tr>
<td>Statistical Analysis</td>
<td>13.5</td>
</tr>
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<td>Computerized Models</td>
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<td>9.8</td>
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Figure 1.1: Types of models utilizes by political risk analysts.
Kobrin's survey compliments an earlier study undertaken by Blank in which companies that viewed country assessment in a formalized manner used the following techniques in order of preference - standardized checklist, scenario development, structured qualitative formats, statistical analysis, computerized investment models and Delphi techniques (Leavy 1984: 142).

Of the more traditional methods regarding country risk assessment, the "grand tours" and "old hands" approach are the simplest. Whilst the "grand tours" approach relies on a visit to the host country by the corporate decision makers the "old hands" method involves acquiring background information from professionals such as educators, journalists and diplomats with background knowledge of the country under review. Although both approaches would undoubtedly allow the company to obtain an overview of the country in the practical sense, as Tarzi stressed, both methods lack systematic analysis and can be somewhat subjective in their approach (Tarzi, 1992: 436).

The Delphi technique is more systematic than the two above-mentioned methods. It involves the identification of particular risk variables and their evaluation by a wide range of experts. These individuals rank or weigh the importance of the variables against certain criteria for a specific country.

1.2 Present status of political risk

Both Stapenhurst and Howell and Chaddick acknowledge that there has been a decline in the use of political risk analysis by corporations. Stapenhurst identified three reasons for this. First, many companies fail to incorporate the results of political risk analysis as it is viewed as an ivory tower exercise. Second, due to the increased level of risk in the 1970's and 1980's, retrenchment took place in smaller institutions that led to a reduction for the need of political assessment. Thirdly, due to "profit squeeze" by corporations' political risk analysis has undergone a process of "externalization" (Stapenhurst, 1992: 55). Howell and Chaddick partly concur with Stapenhurst's assessment but also go further to state that the field of political risk assessment lacks credibility due to the fact that it is regarded as a "soft science" (Howell & Chaddick, 1994: 71).
Although relegated to an inferior position during the 1970's and 80's, political risk assessment has obtained impetus with the collapse of the ideology of communism and the former Soviet Union as well as the Gulf war. Furthermore, the "September 11" (2001) incident in New York, USA has ensured that political risk analysis as a science as well as a practical means of utilization by companies - and governments - will become increasingly prevalent.

1.3 Macro and Micro political risk

Political risk can be divided into two categories:

(1) The Macro-risk of sudden change within the overall business climate of a country.
(2) Micro-risk (actions and policies) which affects only specific areas of business activity.

Robock defined the term "macro-political risk" when he stated, "the risk of a macro nature when unanticipated and politically motivated environmental changes are broadly directed at all foreign enterprise" (Robock 1971: 9).

Political action against all foreign enterprises within a host country is usually motivated by ideology. Communist ideology for instance made no allowance for private ownership, let alone foreign ownership. Another example of this is provided by revolutions. In numerous cases the revolution within a country was not seen as complete until all foreign influence was removed. Hence the developments surrounding multinational companies leaving Cuba and Iran.

Robock states that "risk is of a micro (political) nature when the environmental changes are intended to effect only selected fields of business activity or foreign enterprises with specific characteristics" (Robock 1971: 9). Micro political risk results from a clash of selected interests between the state and the private enterprise. The matter may be exacerbated in the case where the private enterprise is foreign owned. Interest may however change over time, as does the conflict.
1.4 Country Risk and Portfolio Analyses: Indications/Ratings

Various approaches have been developed to evaluate and rate the specific position a country will find itself in at a given time. These ratings or indices are developed using various factors of political risk namely, political, economic and social events and developments. There are numerous variables, which fall within these primary areas.

Kobrin identified the obvious when he stated that political or financial stability is the first factor that is reviewed when a foreign investment decision is made. His cross-sectional study analyses the relationship between flows of American manufactured Foreign Direct Investment (FDI) and seven indicators of economic, social and political factors (Kobrin 1979: 73).

Where Kobrin's analyses are somewhat centralistic due to his identification of FDI by America in countries as an indicator, Perlitz bases his outlook on a more International scale. Each country is rated according to its average Gross Domestic Product (GDP), growth rate per year and it's share of total world export. Perlitz identified four categories of countries:

Baby country: High average GDP, but not (as yet) high international competitiveness, e.g. Singapore and Hong Kong.

Star country: High average GDP and competitive internationally, e.g. Japan.

Cash cow country: GDP relatively low, international competitiveness high, but standard of living high (most EU countries).

Dog countries: GDP low and international competitiveness low, e.g. Pakistan.

Perlitz identifies a country as having a fast growing economy if its GDP growth increases by 4% over a 5-year period, and that its world exports share is 3% or more (Perlitz 1985: 11-12).

A popular risk rating is the Business International Country Rating. A "scoreboard approach" of 4 sub-indices is used, these being:

- Political, legal and social
- Economic
- Financial
- Commercial factors (market size, GNP growth, foreign trade restrictions, and local capital availability, labour, etc).

The Business Environmental Risk Index (BERI) identifies 15 variables grouped into political, operations and financial risk sub-indices. The Political Stability Index (PSI) used to evaluate the political stability and survival of Third World governments, utilizes certain sub-indices such as the Public Unrest Index (frequency of riots and demonstrations), Internal Violence Index (armed attacks, assassinations, coups, etc) and the Coercion Potential Index (internal security forces per 1 000) (Tarzi 1992: 436-438).

The Economist magazine in 1986 produced a risk analysis survey of 50 countries in an article entitled "Countries in Trouble". The article described current political, social and economic circumstances wherein investors would face risks and losses. A select set of variables (16) was chosen as representative in each of the three areas and they were weighed to result in a potential accumulation of 100 "risk" points for any of the 50 countries, which allowed the reader to make an analysis of a specific country. The Economist used proximity to a troubled region/country or super power, extent of authoritarianism, degree of legitimacy of the government, staleness of the regime, involvement of the military, and extent of current war or civil strife as predictors of future harm to the foreign business as benchmarks. Within the field of socio-economic variables the magazine identified rapid and concentrated urbanization, extent of corruption, degree of Islamic fundamentalism, and level of ethnic tension as critical predictors. Each of these, it was argued, foretold problems for the investor. War was the only one within the ten variables, which was likely to cause direct losses. The other variables were simply precursors to war or forms of damage (Howell, D. 1994: 5).

The BERI Political Risk Index (PRI) is based on scores of 10 political variables identified by 70 experts. There are 48 countries that are rated. Unlike the Economist analyses, positive as well as negative scores are given. The 10 variables are divided into three categories:
* International Causes of Political Risk

**Variables:**
- Fractionalization of the political spectrum and the power of these factions.
- Fractionalization by language, ethnic and/or religious group and the power of these factions.
- Restrictive (coercive) measures required thus retaining power.
- Mentality, including xenophobia, nationalism, corruption, nepotism, willingness to compromise.
- Social conditions including population density and wealth distribution.
- Organization and strength of forces for a radical left government.

* External Causes of Political Risk

**Variables:**
- Dependence on and/or importance to a hostile major power.
- Negative influences of regional political forces.

* Symptoms of Political Risk

**Variables:**
- Societal conflict involving demonstrations, strikes and street violence.
- Instability as perceived by non-constitutional changes, assassinations and guerrilla wars. (Howell & Chaddick, 1994: 70-84).

Thus far the various approaches identified, although serving as essential for the company, have some serious drawbacks. All the methods identify countries and their circumstances at a given moment - either presently or in the past. This allows for a point of departure for an institution by proving a "snap-shot" of a country's present situation. What multinational companies are more interested in is a present as well as future analyses of a given country. Furthermore, although economic factors were taken into consideration, their importance in many of the models takes a secondary position. The inclusion of the
most common development/underdevelopment indicator, namely that of the GDP of the country, for example, within the major indicides would provide for a clearer and more concise outlook.

Coplin and O'Leary (1992:72) established a model for political risk analysis, which is regarded as one of the most logical and transparent yet. The Political Risk Services (PRS) forecast/model presently identifies 100 countries. Each of the country's present economic and political position is described. Furthermore, 18 month and five year projections for each country are given. Two hundred and fifty specialists throughout the world are utilized from such fields as academia, business, government and general consulting backgrounds (PRS Group, Inc. 4 January 2001). Variables used by the PRS model include:

- Probability of political turmoil.
- Equity restrictions on investors.
- Government interference in procurement and personnel policies.
- Taxation discrimination.
- Restrictions on repatriation of capital and dividends.
- Foreign exchange control.
- Tariff imposition: new and unanticipated tariffs imposed.
- Non-tariff barriers imposed: like import duty to protect Balance of Payment.
- Payment delays: dept standstills.
- Fiscal-monetary expansion policies.
- Labour cost expansion: friendly to organized labour.
- International borrowing liabilities.
The PRS model includes exclusive features and can be attuned for alternative future governments. Furthermore, the PRS model focuses its forecast by industry, which allows this model to be customized for separate clients thereby allowing for a micro-risk analysis (Venter, 1999:79-80).

Although the Political & Economic Forecast Chart has its shortcomings, it reflects a real effort to analyze the short to medium term prospects of a country through political and economic factors.

An attempt to make political risk analysis more predictable as a field of study was undertaken by Howell and Chaddick in their paper "Models of Political Risk for Foreign Investment and Trade," published in the Fall 1994 edition of the Columbia Journal of World Business. Their work compared the political risk predictions of three internationally respected models (BERI, The Economist and PRS) to the actual losses experienced by international businesses. The authors used losses that were reported through the Overseas Private Investment Corporation (OPIC), a reputable international business insurance organisation (Howell & Chaddick, 1994: 74-88).

A vast range of multi regression analyses was undertaken which resulted in the authors establishing that:

- The BERI Model accounted for approximately 73% of the political risk (as measured by loss).

- The PRS Model could account for about 86%, while;

- The Economist Model could predict about 67% of the political risk.

Although the three models centered on much the same countries, each approached political risk from different perspectives. The Economist Model has a broad geo-political orientation with a strong militaristic, regional and ethnic approach. The BERI Model tends to lean towards internal forces including a wide range of governmental and social
factors, while the PRS Model tends to be biased towards fiscal and economic factors (Bentley College, 28 August 2002: 4).

It would seem that with the combination of the three models, Howell and Chaddick have been able to measure the amount of political risk with a great deal of accuracy. The fact that the collective models come from three different perspectives allows for a good triangulation, due to the fact that, if one examines an occurrence from three different directions and obtains the same answer, the approach would seem to be highly effective.

1.5 Trends and Early Warning Systems

There are various trends identified by political risk analysis, which allows the multinational corporation the opportunity to predict (to a degree), various events within a country via an early warning system (EWS). Drobnick identifies certain "trends" and "events" which serve as early warning signals:

Domestic Trends - Economic trends; GNP growth, unemployment and inflation. Social and political issues including the inequality of income distribution, cohesion of the ruling party, nationalism and terrorism.


Domestic Events - Centralization/Decentralization of political power. Wage and price controls, low growth, political repression, stagnation, etc (Drobnick, 1984: 321-323).

Although Drobnick identified the various factors within the trends and events categories for two specific countries - China and Mexico - the approach for any other country will remain the same. Simon states that, for an early warning system to be effective it should be able to monitor both country-specific and industry-specific conditions, develop a capacity of utilizing diverse sources of information, be aware of current developments and have a feedback procedure available. The corporation can utilize an early warning
system, the major aspects of the system being the division of tasks between its headquarters (macro risk analysis) and its overseas affiliates (micro risk assessments).

Scenario research was developed throughout the 1950's, 1960's and 1970's. Initially it was referred to as forecasting. Companies planned for the future by extrapolating from past trends and events. Scenarios, i.e. the elaboration of alternative futures and contingencies, are of particular value in periods or countries characterized by a high degree of unpredictability and uncertainty, e.g. South Africa.

Mannermaa, (1991: 349-356) goes into a great deal of detail in his paper on Future Research. He begins by identifying "historicism" - the attempt to predict the future on the basis of supposed laws of historical evolution. He discusses scenario paradigms which is futures research based on the idea that the future is not wholly predictable. A scenario builder/constructor seeks to construct several different futures and paths to them. Various techniques are used namely:

Analogies: In order to make a statement on the future, one must look for a historical situation, which resembles the present. One of the essential ideas - that history is repeating itself, is, in some essential respects, at times, factual.

Railways: This is the Macro-sociological idea of development that believes that societies are like trains following each other. Not only the society but also the country as a whole is in this position and all trains (countries/societies) will pass the same "country-side e.g. Finland will be in the same position as Sweden in ten years time. A variant on this model was developed by Okita, which he termed the "flying geese pattern of change". Okita gave as example the United States of America that in the nineteenth century was the leading developed country in the Pacific region. However, Japan has in a relatively short period caught-up with America. Now similar type countries are catching up to the extent of overlapping. The railway and flying geese theories are seen as convergence theories i.e. nations of the world will, over time, become similar to the other.

Scenarios: An image of the future, which can be either utopias desirable (eu-utopia), undesirable (dys-utopia), or something else. Utopias differ from analogies and railway
thinking because utopias do not need model examples from the past or present. In this approach prospective thinking is encouraged i.e. those individuals and their thoughts which emphasize an active and creative attitude towards the future.

Catastrophe: Certain historians, sociologists and individuals model project "doomsday" and catastrophic scenarios (Mannermaa 1991: 349-356). The doomsday scenario approach, although not a popular school of thought, should be borne in mind when undertaking an approach involving scenarios.

1.6 The Status of Scenarios

There is a degree of uncertainty amongst academics regarding the popularity of scenario planning within the corporate environment. Schoemaker, (1983: 28) stated that 50% of Fortune 500 industrial companies had turned to scenario planning by 1982. Frei and Ruloff refer to a survey by Malasks, et al (1984) in which about 36% of respondents used the scenario method whilst in a survey undertaken by Kobrin, (1988: 17) in 1988, 26.1% of those who responded utilized the scenario method.

In 1965 the Royal Dutch Shell group of Companies undertook experimental studies to explore the business environment to the year 2000. Initially Shell had utilized a system called "United Planning Machinery" (UPM) that used a system that looked ahead six years. During the studies it became apparent to the researchers at Shell that a six-year period was too short and an exercise entitled "Horizon Year Planning" - which looked ahead 15 years was researched. The two approaches complemented each other's findings; the most significant being that the oil market would in the short to medium future, become disrupted due to the fact that oil would become scarce.

In 1971 Shell decided to try scenario planning as a possible model for utilization. An extremely detailed study was undertaken which included a myriad of factors, such as each oil producing country's output, future demand of oil, etc. In early 1973 the researchers informed Shell top management that a major oil shortage was imminent. The shortage due to an oil embargo by most OPEC countries became a reality in October 1973. By following the analysis of their planners regarding scenario planning, Shell management was prepared for the eventuality (if not the timing) of the 1973 oil crisis.
Again in 1981, due to their researches advice, Shell was able to sell its excess oil before the oil glut and the collapse of prices due to the end of the Iran-Iraq war (Wack 1985: 73-89).

In corporate planning, multiple scenarios are often used to characterize the range within which the future is likely to evolve. At times a few scenarios are enough to bound the zone of possibilities; other times numerous scenarios may be needed depending on the number of issues examined. The Shell scenarios highlight dynamic interactions (i.e. how one might get from here to there). They are also aimed to cover a broad range of future possibilities.
Section 2: South Africa's Present Position

This section will review South Africa and evaluate the factors within the country that influences (and increase) the macro political risk for a potential investor. Various issues within the country that highlight macro political risk will be discussed. Furthermore, ratings as conducted by various domestic and international institutions will be employed. The purpose of this will allow South Africa's position to be placed in perspective when evaluating the country as compared to other African countries and the international community. On the whole, ratings are a quick-reference method to an accurate, independent analysis by experts (Nye, 1998:22), which allow an investor the opportunity to make a decision based on statistical facts.

2.1 Macro Political Risk and South Africa

As mentioned within the first section of this paper dealing with the various theoretical approaches to PRA, macro risk refers to unexpected and politically motivated changes to the overall political order of a state that affects all foreign and domestic companies in a country. Tarzi, (1992:1) states that it is "macro-political events such as revolutions, wars, political instability, coups, regime changes, major regime succession crises, sudden and wholesale expropriation of the assets of foreign multinationals and similar major events" that draw the attention of individuals and institutions that have an interest in international political risk.

Macro political risk dynamics in emerging markets (including South Africa) tend to concentrate on ethnic, religious and political conflicts. Howell, (2000: 15) acknowledges that certain political and social sources reflect a heightening of macro risk. These causes being:

Inconvertibility – when government actions prevent conversion of local currency to some form of foreign exchange.
**Expropriation or Nationalization** – where a government seizes property or assets of the foreign investor without full compensation to the investor.

**Civil Strife Damage** – losses from domestic political violence.

**War Damage** – losses from international conflict.

**Contract Repudiation** – also referred to as "breach of contract". Losses result from Government termination of contracts without compensation.

**Negative Government Actions** – where government might formally decide to reduce or restrict earnings or foreign investors participation.

**Process Deterioration** – losses resulting from indirect government action. Such issues as government attributes (rather than decisions) and societal processes (e.g. bribery and systemic corruption), lack of enforcement of copyright agreements and racial quotas in hiring.

**Event Intervention** – this a loss that results from an event that is political in its nature or source, while not being a result of known government decision (i.e., kidnapping of managers or executives, strikes or production stoppages that have a political rather than an economic/financial objective, sabotage or damage to a plant or service that originates with a political or religious group in the host country.

Tarzi, (1992: 33) has identified some of the more obvious factors that are regarded as macro risk events. However, there are other measures that, although not emblematic and recurring in nature that are more subtle and varied which have recently begun to take a significant position within PRA. "Creeping expropriation" pertains to factors such as the cancellation of import/export permits, lack of a legal systems ability to adjudicate disputes impartially and unpredictable or discriminatory changes in the regulatory sphere. The second "modern" macro risk aspect is the surfacing of "external precipitants" whereby assessments are amplified by applicable local, provincial, state and international interests. This allows for a more accurate attainment of conflict centering on ethnic or religious grounds pertaining to the ownership of land or natural resources. Lastly, the imposition of "temporary restrictions" which limits the repatriation of foreign exchange by the host country governments (Nairne, 1997: 26-28). These three aspects have been
identified as being the more recent factors that play a considerable role in the arena of macro political risk.

2.2 South Africa: Ratings

International, African and national Ratings of South Africa allows the observer and interested parties the opportunity to obtain information that will assist them in forming an opinion of the country's status, position and general viability from various perspectives. Furthermore, ratings provide an overview of economic, financial and investment prospects that the country might offer which are highlighted when compared against other nations within the continent and worldwide.

It should be stressed that the ratings provided in this paper do not fall within the same category as those done by international banking or credit institutions that concentrate on factors and institutions such as banks, corporates, international public finance or structured finance and then provide an evaluation or national rating – based on relative credit risk – or sovereign ratings. These type ratings are provided by international credit rating agencies such as Standard & Poor's and Moody's Investment Services. The ratings from these institutions start at AAA and move down to D.

This section will look at how South Africa compares to other countries when benchmarked against certain dynamics – including statistics - that are prevalent within the economic, social, business and political environment in all countries. A vast majority of the information was gained through surveys, conducted on individuals and companies. The information as seen in figure 1.2, will allow the individual to gain a primary assessment of South Africa.
Figure 1.2 International Ratings (Economic, Social and Financial) of South Africa

<table>
<thead>
<tr>
<th>GLOBAL POSITION</th>
<th>SUBJECT/PRODUCT/COMMODITY</th>
<th>STATISTIC OR AMOUNT</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>30th</td>
<td>Largest Economy</td>
<td>GDP at US$ 131.1 billion</td>
<td>2002</td>
</tr>
<tr>
<td>44th</td>
<td>Most Economically Free</td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>39th</td>
<td>Largest Exporter (visible and invisible)</td>
<td>0.43%</td>
<td>1998</td>
</tr>
<tr>
<td>29th</td>
<td>Largest Industrial Producing Country</td>
<td>US$ 42 billion a year</td>
<td>1997</td>
</tr>
<tr>
<td>30th</td>
<td>Largest Service Output</td>
<td>US$ 84 billion a year</td>
<td>1997</td>
</tr>
<tr>
<td>39th</td>
<td>Most Competitive Country</td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>36th</td>
<td>Best Country to Conduct Business in</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>26th</td>
<td>Most Creative Technological &amp; Economic Country</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>33rd</td>
<td>Largest Spender on Research and Development</td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>19th</td>
<td>Largest country regarding the granting of Patents</td>
<td>884</td>
<td>1998</td>
</tr>
<tr>
<td>13th</td>
<td>Largest Road network</td>
<td>534 131kms</td>
<td>1999</td>
</tr>
<tr>
<td>61st</td>
<td>Largest Merchant Fleet</td>
<td>198 registered</td>
<td>2000</td>
</tr>
<tr>
<td>Rank</td>
<td>Category</td>
<td>Data/Details</td>
<td>Year</td>
</tr>
<tr>
<td>-------</td>
<td>---------------------------------</td>
<td>---------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>8th</td>
<td>Highest Spender on Education</td>
<td>8.1% of GDP</td>
<td>1997</td>
</tr>
<tr>
<td>21st</td>
<td>Lowest Life expectancy</td>
<td>47.4 years</td>
<td>2000</td>
</tr>
<tr>
<td>9th</td>
<td>Lowest Cost of Living</td>
<td>USA = 100, SA = 51</td>
<td>2000</td>
</tr>
<tr>
<td>107th</td>
<td>Human Development Index (UN)</td>
<td>2002</td>
<td></td>
</tr>
<tr>
<td>36th</td>
<td>Least Corrupt Country</td>
<td>102 countries evaluated</td>
<td>2002</td>
</tr>
<tr>
<td>23rd</td>
<td>Largest Recipient of Aid</td>
<td>US$ 25 billion a year</td>
<td>1997</td>
</tr>
<tr>
<td>23rd</td>
<td>Highest Foreign Debt</td>
<td>US$ 24.158 million</td>
<td>1997</td>
</tr>
<tr>
<td>8th</td>
<td>Largest Producer of Nickel and Lead</td>
<td>35 500 tons a year, 80 000 tons a year</td>
<td>1997</td>
</tr>
<tr>
<td>5th</td>
<td>Largest Producer of Coal</td>
<td>116.7 million tons</td>
<td>1997</td>
</tr>
<tr>
<td>19th</td>
<td>Largest Exporter of Coal</td>
<td>71.8 million tons</td>
<td>1997</td>
</tr>
<tr>
<td>8th</td>
<td>Largest Producer of Aluminium</td>
<td>687 000 tons a year</td>
<td>1997</td>
</tr>
<tr>
<td></td>
<td>Gold</td>
<td>447.2 ton a year</td>
<td>1997</td>
</tr>
<tr>
<td>10th</td>
<td>Raw Wool</td>
<td>55 000 tons a year</td>
<td>1997</td>
</tr>
</tbody>
</table>

Figure 1.2 provides an extremely general overview of South Africa's placement within the economic, financial and social world order. This does allow an individual or institution to gain an insight of South Africa's potential. To allow them to narrow their scope even further, a general examination of South Africa within the continent of Africa is provided in Figure 1.3.

**Figure 1.3 African Ratings (Financial, Economic and Social) and South Africa's position.**

<table>
<thead>
<tr>
<th>South Africa's Position within Africa</th>
<th>Subject</th>
<th>Statistic/Subject</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th</td>
<td>GDP per capita</td>
<td>US$ 3 160 101000</td>
<td>1999</td>
</tr>
<tr>
<td>9th</td>
<td>Most open country to trade</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>6th</td>
<td>Paved roads as % of total roads</td>
<td>41.5%</td>
<td>1999</td>
</tr>
<tr>
<td>1st</td>
<td>Internet hosts</td>
<td>140470</td>
<td>2000</td>
</tr>
<tr>
<td>1st</td>
<td>Internet users</td>
<td>990000</td>
<td>1999</td>
</tr>
<tr>
<td>7th</td>
<td>Custom clearance time</td>
<td>8.6 days</td>
<td>1999</td>
</tr>
<tr>
<td>10th</td>
<td>Telephone price</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>4th</td>
<td>Air transport, cost</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>2nd</td>
<td>Air Transport, quality</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>5th</td>
<td>Port facilities, cost</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>7th</td>
<td>Port facilities, quality</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>17th</td>
<td>Quality of Primary Education</td>
<td>Centres on science, language and math</td>
<td>1999</td>
</tr>
<tr>
<td>18th</td>
<td>Quality of Secondary Education</td>
<td>Centres on science, language and math</td>
<td>1999</td>
</tr>
<tr>
<td>23rd</td>
<td>University Education</td>
<td>Availability of</td>
<td>1999</td>
</tr>
<tr>
<td>Rank</td>
<td>Category</td>
<td>Indicator</td>
<td>Year</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------------</td>
<td>-------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>21st</td>
<td>Local Labour Market</td>
<td>education to meet needs of business</td>
<td>1999</td>
</tr>
<tr>
<td>3rd</td>
<td>Legal System</td>
<td>Efficiency in enforcing legal contracts</td>
<td>1999</td>
</tr>
<tr>
<td>5th</td>
<td>Fair Court system</td>
<td>Fairness and impartialness of country's court</td>
<td>1999</td>
</tr>
<tr>
<td>6th</td>
<td>Rapid Legal System</td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>20th</td>
<td>Public Security</td>
<td>Rating of the quality, integrity and fairness of police</td>
<td>1999</td>
</tr>
<tr>
<td>24th</td>
<td>Organized Crime</td>
<td>Significant cost on business</td>
<td>1999</td>
</tr>
<tr>
<td>11th</td>
<td>Civil Service stability</td>
<td>Strength and expertise to avoid interruptions</td>
<td>1999</td>
</tr>
</tbody>
</table>


As can be seen from figure 1.3, South Africa does not lead in any specific field within Africa, apart the primary position within the Internet sphere. Both the international and continental ratings would seem to place South Africa in the medium category with regard to prospects as in investor destination.
2.3 Evaluating South Africa: The Presence of Comprehensive (Macro) Political Risk

As with all nations, South Africa has its share of macro political events that influence the potential foreign investors decision as to whether to invest and for what period. Ultimately, the risk undertaken by the individual or institution should not be to such a level that the return on their initial investment is not financially justified. The following macro political (and economic) events within the country will ultimately influence the decision as what route should be taken.

2.3.1 Corruption

Corruption has a debilitating effect on a country's development. It has a negative effect on the nation's revenues and macroeconomic stability. It prevents stable economic growth, hinders business enterprises and compounds the suffering of the poor in a country due to their lack of being able to pay bribes for service delivery. Furthermore, corruption strongly undermines a country's status and credibility.

In the majority of developing countries be they in Asia, South and Latin America or Africa corruption remains an important aspect of the political and economic environment that the investors has to content with. Although corruption is social in its origin it is often politically condoned. In numerous African countries corruption has almost become an acceptable practice that augments the normally meager salaries of public servants. The almost traditional practice of providing bribes or "gifts" at most levels of an investment project can amount to as much as 3% of total cost. Therefore, a company that has a limited profit margin that is little more than three to five percent will not involve itself in this environment (Howell, 2000: 4).

It is estimated that corruption cost Africa about US$ 148 billion annually which deters investors and increases the cost of goods by up to 20% (Business Day, 19 September 2002: 2). South Africa has not succumbed to the above-mentioned level of corruption.
However, there are some disturbing trends that indicated that there is a growing belief amongst South Africans and the international community that the level of corruption within the country is increasing.

As early as 1996, two years after the country's first democratic elections, a public opinion survey conducted by the Institute for a Democratic Alternative for South Africa (IDASA) strongly suggests that a large minority of South Africans – 46% perceived government to be substantially corrupt (IDASA, 1996). The accounting agency Deloitte and Touche elucidated this perception when in 1997 the company estimated total losses from public sector fraud at nearly R 10 billion (Africa Recovery, December 1999: 10).

By 1998 the two most significant forms of corruption, as identified by the National Party's (NP) corruption barometer, was fraud/theft (46.87% - between R 10.87 billion and R18.7 billion) and ineffective administration (30.18%). The NP even listed the provinces on a scale according to their levels of corruption. The Eastern Cape was classified as the most corrupt province followed by KwaZulu-Natal, Mpumalanga, the Free State, Gauteng, Northern Province, North West Province, the Western Cape and the Northern Cape as the least corrupt (Die Burger, 6 August 1998: 3).

Corruption and the direct and indirect consequences of the practice have a significant impact on the country's economy. In February 2000 the Office for Serious Economic Offences had 34 fraud-related cases on its books, involving R 11.8 billion. To place this amount in perspective, it should be noted that this sum was approximately the same as the 1999 pre-tax profits for Sasol, GC Smith and SA Breweries combined (de Grandpre 2000: 1).

From an International perspective the Berlin based Non-Government Organisation (NGO) Transparency International (TI) provides an objective overview - begun in 1995 - of select countries positions within the international community with regard to how corrupt these nations are perceived as being. The study is entitled the Corruption Perception Index (CPI). The CPI's methodology is based on 15 surveys from nine independent institutions. More than 830 interviews are conducted annually with senior
executives of domestic and foreign companies, but also with executives of chartered accountancies, bi-national chambers of commerce, national and commercial banks and commercial law firms. The CPI is a poll of polls, reflecting the perceptions of business people and country analysts, both resident and non-resident of select countries (Transparency International Perception Index, 14 May 2002).

Two grades within the CPI – the country's general position within the index and its score, as determined through the methodology mentioned above - allows the individual to determine at a glance how corrupt a country is perceived as being. South Africa's position within the CPI when ranked against others remains relatively constant. In 2000 the country was placed 34th out of a total of 90 (the country placed 90th was perceived as the most corrupt while the least corrupt was placed 1st). The 2001 CPI placed South Africa in 38th position out of 91 countries while in 2002 the country was ranked 36th out of 102. As mentioned previously South Africa's overall position has remained reasonably consistent – between 34th in 2000 and 38th in 2002. However, there has been a gradual dip in the countries overall score on corruption perceptions as reflected by the fact that the country's rating fell from 5 (out of a possible 10 points for least corrupt) in 2001 to 4.8 in 2002. Transparency International's 2002 concern centers on potential corruption in relation to the newly formed African Union and the New Partnership for Africa's Development (NEPAD). "Transparency's primary focus would be on Nepad's vulnerability to corruption...Corruption tends to find a gap between policy and implementation" (Business Day, 29 August 2002: 16).

South Africa is in the (unfortunate) position to receive a negative image, solely due to the fact that the country is part of Africa, which almost automatically places it into a negative category from an investor's perspective with regard to corruption. Encouragingly, the South African government is increasingly aware of how it and the country are viewed. Measures are continuously being undertaken to counter corruption at all levels. The fact remains that even on the African continent South Africa is not categorized by TI as being perceived as the being the least corrupt nation. This position goes to Botswana followed by Namibia. South Africa and Tunisia tie for third place.
Although the South African government continues to establish bodies to combat corruption, thus far few positive results have been reported.

2.3.2 Land Reform

Land and issues surrounding ownership remains an emotive and contentious matter in South Africa. Due to the 1913 Land Act an estimated 13% of the land in South Africa was in black hands. Events within the country have been exasperated by recent developments surrounding land reform in the neighboring countries of Zimbabwe and Namibia. During 2002 the Zimbabwean government successfully forced 3 000 white farmers off their land which allowed for the redistribution/expropriation of 11 million hectares of white-owned land, leaving the white commercial sector of 4 500 families with 200 000 hectares (Sowetan, 13 September 2002: 3).

President Sam Nujoma of Namibia who berated "arrogant" commercial farmers in his own country for blocking land reforms supported President Mugabe's actions. In that country a few thousand white farmers control 36 million hectares or 70% of the country's privately-owned land and 44% of its total land mass. Furthermore, President Nujoma stated that he wanted to expropriate 192 farms, mostly owned by Germans and South Africans (The Economist, 14 September 2002: 43).

These developments, although having taking place outside South Africa, have influence perceptions of the country. Observers cannot help but draw comparisons between what has happened in Zimbabwe, what might happen in Namibia (despite that country's Prime Minister, Theo Ben Gurirab's assurance that Namibia will not emulate Zimbabwe's controversial land reform programme) and what might in the future very possibly occur in South Africa.

These perceptions are enhanced by a clear lack of policy (or even vision) by the South African government regarding its relations with Zimbabwe and that country's action against white farmers. Senior politicians in South Africa, including President Thabo Mbeki have repeatedly stated that land invasions will not be tolerated. However, the rhetoric does not meet with the realism of developments in the country. Added to this, is
the fact that there has not been a single official statement made by any South African
government representative on the recent land invasions in Zimbabwe.

Developments within South Africa pertaining to Land reform has been an uneasy and
disorganized process since a reconstruction and development programme, was
implemented by the government in 1994. The programme planned to redistribute 30% of
agricultural land within five years. Less than 1% of agricultural had been redistributed
after the five-year period. The Minister of Land Affairs, Thoko Didiza revised this target
in 2000 to aim to redistribute 30% of agricultural land over a longer period of 15 years. In
effect this means a total of 1.64 million hectares of land would have to be transferred
each year. As of August 2003 a total of 1.67 million hectares had been transferred
through restitution, redistribution and tenure upgrades. It is estimated that a total of 25
million hectares needs to be transferred to meet the 30% target (Business Day, 28
October 2002:3).

The South African government has stated that 95% (36 279 land claims since 1994) of
land restitution claims have been addressed by January 2003 (SABCnews.com, 20
January 2003). What fails to be mentioned however, is the fact that over 90% of the
settled claims are "urban claims", largely settled through financial compensation (New

Another problem revolves around obtaining financing for land reform. Since the
departure of Nelson Mandela in 1999, funding from international donors has been cut by
50%. The South African government has been rather reticent about allocating funds for
land claims. In 2002 the government spent only R 900 million on Land Affairs – only
0.3% of the R258.3 billion, 2002 national budget (Business in Africa, December/January
2003: 34-37).

Public sentiment within South Africa on the Land Reform issue shows a clear racial
divide on the question. A survey published by the South African Institute of Justice and
Reconciliation underscores the point. Of 3 700 respondents, only 28% of whites thought
land re-distribution was very important. Fifty seven percent of blacks thought it was,
although unemployment (89%) and poverty (86%) was regarded as being more pressing.
To the statement: "Most land in South Africa was taken unfairly by white settlers, and therefore have no right to the land today", 85% of black respondents agreed with the statement. Only 8% of whites agreed (New Africa, November 2002: 15).

The South African government's inability to articulate a foreign policy position on land reform in the neighboring countries of Namibia and Zimbabwe, compounds to the continued confusion within its own borders on how to effectively process and conclude land claims. This could ultimately ensure that frustration be directed at white farmers. This Although subject to debate as to why - attacks in South Africa on white farmers are increasing. In 2000, 142 white farmers were killed while 906 were attacked. By 2001, 140 white farmers had been murdered and 970 attacked (New Africa, November 2002: 15). South African farmers have warned that farm killings and legislation (or rather lack thereof) is threatening to move the country's agricultural sector into a crisis similar to that of neighboring Zimbabwe. "There is growing concern among white South African farmers as regards their future, mainly as a result of events in Zimbabwe and Namibia, but also as a result of certain actions, or lack of action, in South Africa (South African Grain, 30 October 2002: 2).

A recent ongoing development on the East Rand highlights the problems surrounding the land question and the South African governments inability to manage this volatile issue. Approximately 40 000 squatters, many of them illegal immigrants have invaded a commercial farm called Modderklip. Braam Duvenage, the landowner obtained a court order for the eviction of these squatters. After the order was handed down in April 2002, the sheriff of the Benoni magistrate's court informed Duvenage he would have to pay R1.8 million so that a security firm could be hired to remove the squatters. Mr Duvenage then proceeded to ask the Pretoria high court to enforce the order for the squatters' removal by instructing the government to carry out the original order, which was upheld. The government has applied for leave to appeal against the Pretoria high courts decision. The respondents in the case are the President, the Minister of Safety and Security, the Minister of Agriculture and Land Affairs, the Minister of Housing, the National Commissioner of Police, the Sheriff of the Supreme Court in the Benoni district, the Ekurhuleni metropolitan municipality and the Modder East illegal occupiers (The Sunday
Independent, 26 January 2003: 2). All these institutions and individuals, except the last mentioned body represent the government or the country's justice system. The case, which is presently continuing, will hopefully indicate (to the government) what its legal responsibilities are. Furthermore, it also clearly shows what the government's attitude to land invasions is, and its (supposed) commitment to the property rights provisions, which are embodied in the constitution.

2.3.3 The Rand

The South African currency, the Rand and the unit's strength measured against other major international currencies, notably the United States dollar, remains an important economic indicator for many South Africans. However, it is not the currencies strength or weakness that detracts potential investors but rather the volatility of the unit.

During 2001 the Rand slid from R7.58 in January to R13.86 by December, a 37% depreciation over a twelve-month period. In 2002 the currency began to strengthen again, and appreciated to R10.28 to the US$ in March. By 28 January 2003 the Rand had strengthened to R8.57, more than a 40% escalation to the Rand's position in January 2001. The escalation of the Rand made the currency the best performer on the foreign exchange markets in 2002 (Business iafrica.com, 28 January 2003).

There is no doubt that, over time the Rand has devalued against all major currencies. For example the Rand has decreased by 600% against the US dollar over the last 20 years (Business Day, 20 July 2001: 2). The weak Rand is not a high priority for the potential investor, in fact the opposite is the case but, the volatility of the currency, compounded by the historical trend which suggest it can reverse suddenly and dramatically strongly indicates the slide of the unit – despite sudden upsurges – will continue to detract many investors.
2.3.4 Unemployment

Unemployment is the primary cause of poverty in South Africa. "Roughly a third of the workforce is not employed. Among unskilled rural black women the figure is 70%. The formal sector has shed 500 000 jobs since 1994; the ranks of those who want to work swell by 1 000 each day (The Economist, 19 May 1999: 32). In South Africa, the official definition of unemployment states that the unemployed are those persons within the economically active population who did not work during the seven days prior to an interview; want to work and are available to start work within a week of an interview; and have taken active steps to look for work or to start some form of self-employment in the four weeks prior to an interview. According to the 1999 October Household survey, for every 100 persons of working age (between 15 and 65):

- 48.7 were not economically active.
- 51.3 were either working or looking for work. Of these 51.3 persons; 11.9 were unemployed, and 39.4 were working in the formal or informal sector (StatsSA 2000: 44).

Unemployment in South Africa is one of the greatest challenges facing the country. The problem continues to grow and manifests in various negative social factors including crime. The government has failed to address the growing problem of unemployment in fact the official rate of unemployment has grown from 16% in 1994, 23.3% in 1999 and 29% in 2001. By early 2002 the rate had grown to 29.4%, which represents 4.7 million South Africans – as opposed to 11.4 million employed people. At the same time trade unions and representatives of civil society state that the (unofficial) unemployment rate presently stands at approximately 40% (Pretoria News, 10 July 2002: 15)

The government does not seem to have a comprehensive national programme to combat unemployment. There are attempts to improve safety standards as well as establishing a minimum wage within certain sectors. However, these actions seem to be addressing the symptom and not the cause. The fact remains, unemployment is growing rapidly and little is being done to successfully reduce growing unemployment in the country.
2.3.5 Crime

South Africa is seen domestically and internationally as a country where crime is rampant and increasing. According to the comparative crime statistics for 1997, released by Interpol, South Africa was listed in first place out of 110 countries as far as the per capita rates of murder and rape are concerned. The country has the second highest rate of robbery and violent theft, and the fourth highest rates of serious assault and sexual offences (Schonteich, 2001: 17).

Further observations on crime in South Africa and its continued growth:

- Commercial crime as reported to the South African Police Services (SAPS), (including fraud, forgery, and embezzlement) increased in 2000 – compared to 1998 by 9.4%. An example of the growth in commercial crime was a fraud survey conducted by the accounting firm KPMG of 2 000 southern African companies in 1999. According to the poll, 66% of those companies approached experienced fraud in 1996 and 83% in 1999. Interestingly, the survey found that 23% of fraudulent acts were committed by employees, 23% by customers, 22% by management, 20% by suppliers and 19% by service providers (SAIRR, 2000), a rather even distribution amongst all groupings.

- Rape is a largely risk-free activity in South Africa as reflected by the fact that only 7.7% of reported rapes cases in 2000 resulted in conviction. Shockingly 40% of all reported rapes were perpetrated against children under the age of 18. Added to this growing dilemma is the fact that it can take up to 18 months for a rape case to be finalized (Mail and Guardian, 15 to 21 November 2002: 3).

- The average South African is more likely to be shot to death than to die in a vehicle accident. According to the National Injury Mortality Surveillance System (NIMSS), death caused by firearms was higher in South Africa than any other causes of non-natural death. While murder accounted for more than 44% of the firearm fatalities, 35% of the deaths were accidental and 9% were suicides (Business Day, 25 July 2002: 3).
• An average of 55 South Africans are murdered every day, more than in many countries, which are at war (Pretoria News, 16 November 2002: 1).

• Many observers believe the countries criminal justice system is in a state of crisis. The prosecution service is taking fewer cases to trail than at any time since 1949. In that year some 1 397 000 crimes were reported to the South African Police (SAP), resulting in 363 903 prosecutions and 295 329 convictions. Seen as a proportion of reported crimes, 26% of cases were prosecuted, and 21% ended in conviction. In comparison, in 1996 some 2 733 363 crimes were reported to the SAPS, of which 291 842 (or 10.7%) were prosecuted and 218 394 (or 7.9%) resulted in convictions. According to Schonteich, the average criminal whose actions were reported to the police stood a one in four chance of being convicted in 1949, while in 1996 the chance of being found guilty by a court had dropped to almost one in thirteen (Schonteich, 2001: 87).

• According to the South African Police Services (SAPS) there are more than 500 crime syndicates operating in the country, many with African and international links. Some of the reasons for their rapid growth include:

  - The fact that South Africa has very porous borders, allows for illegal immigrants and contraband to cross the borders easily.

  - New air, sea borne and telecommunications links have expanded rapidly since the ending of apartheid.

  - South Africa's political transformation within public sector institutions has created conditions in which public servants are either very uncertain about their future (especially those who served in the pre-1990 era) or have unrealistic monetary expectations (some of those who are new in the public service). Both those conditions tend to make some public servants highly susceptible to bribery and corruption (SAPS, 2000).
2.3.6 AIDS

A great deal has been written and discussed about AIDS in South and southern Africa since the early 1980's when the pandemic began. The evaluation of AIDS and the effect the disease has on South Africa cannot be conducted in isolation and an overview of the influence the virus has on developments in the region will also be provided, thereby placing the pandemic in perspective.

In January 2000, the United Nations Security Council debated the impact of AIDS on security in Africa, the first time in the Council's history that discussed a health issue as a threat to peace and security. At the Council debate the United Nations secretary-general, Kofi Annan, told the Council: "The impact of AIDS in Africa was no less destructive than that of warfare itself. By overwhelming the continent's health and social services, by creating millions of orphans and by decimating health workers and teachers, AIDS is causing social and economic crises which in turn threaten political stability" (Traders. November 2002 to February 2003: 63-64).

According to the United Nations, in 2002, 26 million people in sub-Saharan are infected with HIV, the virus that causes AIDS, 58% are female. Furthermore, the rate of infection continues to escalate (Pretoria News, 5 July 2002: 13). In some southern African countries, more than a third of adults carry the virus. A 15-year old boy in Botswana has an 80% chance of dying of AIDS. It is estimated that Africa has 34 million orphans. By the end of the decade it is estimated that the figure will rise to 42 million, half orphaned by AIDS. Many of these children grow up without parental guidance and turn to begging or prostitution and increase the social ills in their countries (The Economist, 20 November 2002: 42).
Figure 1.4 provides an overview of the rate of AIDS infections amongst male and females in various African countries including South Africa.

<table>
<thead>
<tr>
<th>Rate of AIDS infections, 2002</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Botswana</td>
<td>45%</td>
<td>9%</td>
</tr>
<tr>
<td>Lesotho</td>
<td>51%</td>
<td>23%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>47%</td>
<td>18%</td>
</tr>
<tr>
<td>Zambia</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>Namibia</td>
<td>25%</td>
<td>8%</td>
</tr>
<tr>
<td>Malawi</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>Rwanda</td>
<td>13%</td>
<td>6%</td>
</tr>
</tbody>
</table>


In South Africa the greatest problem surrounding the AIDS debate was the government's position (or lack thereof) regarding the pandemic. Until the sudden change in attitude (rather than policy) in 2002, the South African government seems to many observers to be in denial regarding the national consequences of the disease. As recent as August 2001, President Mbeki had instructed the Minister of Health to consider reducing spending on anti-AIDS measures.
According to estimates:

- One in every eight people infected worldwide is a South African.

- South Africa has more HIV/AIDS infections than any other country in the world.

- 1 800 new infections are recorded each day.


From a purely financial perspective the government's position can be comprehended. The cheapest combination of long-term anti-retroviral drugs will cost R 700 million a year for 100 000 people. If all 5 million infected people in South Africa were to get such treatment, it would cost R 35 billion. In 2002, this amount was equal to what the government spent on all welfare and pension programmes, or a seventh of all state spending in 2002 (The Economist, 25 April 2002: 44).

AIDS is now the leading threat to life and accounted for 40% of all adult deaths in 2001. The South African Medical Research Council (MRC), suggests that as many as 7 million will have died of AIDS-related diseases by 2010 and given the present rate of infection, about half the country's teenagers under 15 can expect to contract AIDS. The World Health Organisation believes that 250 000 people already die each year from such complications and according to UNAIDS, average life expectancy in South Africa is only 47 years, instead of 66, because of AIDS (The Economist, 21 February, 2002: 46).

The AIDS pandemic affects all areas of South African society. An example of this is the statement by the South African Police Union (SAPU) in which the organisation estimates that between 20% and 30% of non-violent deaths of police officers aged between 21 and 35 are AIDS-related causes (Pretoria News, 18 September 2002: 2).

Apart from the social and medical implications of AIDS there are the financial repercussions, which impacts negatively on the country's economy. As the number of people with full-blown AIDS increases, companies are beginning to see a loss of productivity, low morale, absenteeism and the death of workers aged between 20 and 40. As skilled and experienced workers die, their firm face rising retraining costs and the loss
of valuable know-how. Within this type environment South African companies will begin to make contingency plans based on experiences in other African countries. An example of such a strategy (which truly shows just how drastic events have become) is the model used by mining companies in Zambia that started training four people for each skilled job in the knowledge that three will die (The Economist, 9 May 2002: 27).

If the virus continues to go unchecked it could very well destroy the economic fabric of South Africa. Developments highlighting the present situation pertaining to the economic impact the disease has on the country are the fact that:

- According to the mining company Anglo-Gold, the virus adds as much as US$ 6.00 to the roughly US$ 170 to US$ 180 of the overall cost of producing an ounce of gold. A sister company, Anglo American, says AIDS adds US$ 9.00 for every ounce of platinum (The Economist, 10 August 2002: 55).

- The South African motor industry expects domestic car sales to decrease sharply during the next five to eight years. "Vast numbers of potential new vehicle customers are dying and are still going to die". A reduction in disposal income, together with increased spending on medical care will hurt South Africans' ability to finance new vehicle purchases (The Sunday Independent, 3 November 2002: 5).

- An investor survey conducted by BusinessMap found that that the spread of HIV/AIDS in South Africa contributed to the decline in foreign direct investment. It was believed, somewhat conservatively that, by 2015 nearly 9% of the country's highly skilled labour force and 19% of all skilled laborers would be infected with HIV (Business Day, 23 October 2002: 2).

- It is estimated that by 2010, South Africa, which generates about 40% of sub-Saharan Africa's economic output, is likely to have a real GDP 17% lower than it would have been without AIDS (Traders. November 2002 to February 2003: 63-64).
The devastating effect of HIV/AIDS continues to impact on South Africa and its people. There is no indication that the infection rate is manageable, in fact the opposite is true. Ironically, capital to combat the virus medically as well as to educate South Africans is available. What is lacking is the willingness compounded by inability and inefficiency on the part of the government to fight the plague.

2.3.7 Brain Drain

South Africa was for many years a country that attracted international immigrants. Generally the number of legal immigrants to South Africa exceeded the number of emigrants resulting in net migration gains. Since 1940 South Africa has gained approximately 654 900 people – about 10 740 immigrants a year. Immigration peaked during the late 1960s and early 1970s. However, due to the political unrest in the country legal immigration dropped dramatically and the country started to see a migration loss. Since 1994, "South Africa has experienced a net migration loss of 31 953 people. The year 2000 was the seventh in a row in which South Africa suffered a net loss of people" (Roux, 2002: 70).

The South African government stresses that the immigration of peoples from within the country is not too much of a problem as the country receive adequate replacements from Africa with regard to legal emigrants. It should be noted that little seems to be achieved regarding stemming the illegal immigrants that stream into the country. Exact numbers vary considerably from a "conservative estimate of less than 2 million to the probably exaggerated figure of 8 million (The Economist, 2 September 2000: 19). The unfortunate reality is that the immigrants to South Africa be they legal or illegal bring very little economic value to the country.

The serious drain of locally trained skills and people (the "brain drain") continues and could actually be as much as three timed higher than official figures suggest (Kane-Berman, 2000:1). The University of Cape Town's policy research unit's research indicated that 41 496 well-trained and much needed professionals emigrated from the country between 1989 and 1997 – almost four times more than the official figure of 11 255. In 2001 a total of 12 260 South Africans emigrated. Amongst them were 884
managers, 358 engineers, 518 accountants, 88 doctors, 27 dentists, 6 medical specialists, 353 teachers, 286 artisans and 1,848 students. In the first half of 2002, 7,423 South Africans emigrated, an increase over the figure of 7,086 for the same period in 2001 (Pretoria News, 16 October 2002: 1).

The position maintained by Kane-Berman is complimented by a recent study undertaken by the Council for Scientific and Industrial Research (CSIR) which questions the statistics provided by the South African government (through Statistics South Africa) that recorded that 58,694 people had left the country permanently between 1996 and 2001. The CSIR believes the figure to be at least 3.5 times higher. This was due to the fact that most official records are obtained from self-declared emigrants from South Africa who had completed departure forms from the country's three international airports only (Pretoria News, July 21 2003: 7).

Factors surrounding the loss of South Africans portray a discouraging future for the country. Half of all community doctors currently working overseas were not returning. Twenty-six percent of doctors who graduated between 1990 and 1999 left the country, and about 5,000 doctors trained in South Africa were living abroad. Three hundred nurses were leaving the country on a monthly basis. In total it estimated that between 12% to 14% of all South Africans with a tertiary education are living abroad (Business Day, 30 October 2002: 2).

Emigration is a serious problem, with devastating consequences for the economy. The departure of skilled qualified people from the country is increasing with little successful action taken by the South African government to discourage this exodus, which increases annually. The above statistics highlight the growing problem surrounding the loss of qualified, experienced people that the country so desperately needs. The fact remains that people are leaving as the feel unsafe due to the rising crime rate and policies such as affirmative action which in effect ensures that individuals within specific population groups see little to no future for themselves or their children.

2.3.8 Affirmative Action

Legislation has been created in South Africa, which compels both the private and public
sectors to comply with an affirmative action policy with regard to employment, promotion and the general personnel profile within the institution. The legislation's aims are closer to those of Malaysia (as opposed to America's which is designed to protect racial minorities in the work place), which implemented laws to favor the majority Malays over the richer but less numerous ethnic Chinese.

The Malaysian affirmative action New Economic Policy (NEP) was introduced in 1971 to help correct disparities between the Muslim Malays (55% of the population), ethnic Chinese (35%) and ethnic Indians (20%). The Malaysian government's goal is to ensure that the Malays reached the economic target of 30% of the "economic pie" (Taiwan News, 11 September 1999).

South Africa's Employment Equity Act requires companies with more than 50 employees, or with turnover above specific limits, to ensure that previously disadvantaged groups—including women, blacks and the disabled— are adequately represented throughout the workforce on the basis of the "demographic profile" of the relevant region and the country as a whole. In effect this would mean that 75% of the personnel in a company must be black, 52% should be female and some 5% should be disabled. According to the Act, should a company not comply it can face a fine of up to R 900 000 (The Financial Times, 11 September 1999: 4).

The policy of affirmative action in South Africa places strong restraints on development in the country. Furthermore, it inhibits initiative, enterprises and their enlargement, entrepreneurial skills and the general growth of the economy and in the long term will increase the rate of unemployment. Any investor will feel inhibited to invest in a country in which there is legislation that compels him as to who and how many of what race he should employ.

Affirmative action in the South African work environment impedes profit and inhibits companies in the sense that many Small and Medium Size Enterprises (SMEs) are hesitant to expand beyond the limit of 40 staff members. Larger companies would rather pay the fines placed on them by the Department of Labour, than meet an unrealistic and damaging personnel quota. Some foreign investors (notably Taiwanese) have found
methods to circumvent legislation by sub-dividing their company when their personnel component reaches 38.

The ultimate irony is the fact that, the actions that hindered foreign investment to South Africa during the apartheid era – that of requiring companies to classify their workers by race – is one of the factors that restricts foreign companies from presently investing in the country.

2.3.9 Foreign Direct Investment

Direct Foreign Investment (FDI) into South Africa or to any country remains an important indicator as to the level of confidence external institutions have in the country's future as well as being a key indicator of the success of the country's transition. When South Africa was a closed and protected economy, South Africa's direct investment was subjugated by large domestic corporations with a penchant for conglomeration. With the opening up of the economy through trade liberalization and the re-entry of foreign companies, competition has increased. There has been considerable corporate restructuring with an increase in unbundling initiatives, merges and acquisitions as well as offshore investment transactions. This development has provided room for foreign entrants to expectedly open up export markets to their South African subsidiaries.

Traditionally, about 60% of FDI in Africa is allocated to oil and natural resources and of this 65% of FDI is concentrated in South Africa, Nigeria and Cote d'Ivoire. The amount of FDI to the African continent is somewhat nominal. According to a UNCTAD report the flow of FDI world wide for 2000–2001 came to approximately US$ 1271 trillion and only US$ 8.2 billion of that total went to Africa (UNCTAD, 2001). Some observers theorize that FDI continues to concentrate on developed countries and that developing countries (such as South Africa) fail to attract investment due to economic and political uncertainties. However, the fact that China, a country mired in uncertainties was the world's largest recipient of FDI (US$ 53 billion) in 2002 (The Economist, 15-21 February, 2003:67) reveals a strong argument against this stance. From 1993 to 1997 an average of US$ 755 million FDI inflows to South Africa was registered. For the period
1994 to 2001 this increased to US$ US$ 2.5 billion. For the year 2002 FDI to the country totaled US$ 2.7 billion.

A review of FDI to South Africa reflects that although the country remains one of the more promising African countries for foreign institutions to invest in and that FDI is increasing, there needs to be a great deal more emphasis placed on promoting the country as a investment destination. According to the BusinessMap Foundation South Africa's slow growth rate was a major cause of low FDI and, if the government wanted to turn this around, it needed to boost the local economic climate. Furthermore, foreigners were put off investing in South Africa because local firms were sitting on an enormous cash pile – some estimates put this at R 300 billion. This compounds the belief by foreign investors that they should not invest in South Africa if local institutions do not (Pretoria News, 6 February 2003: 20).

2.4 Micro Political Risk: South Africa

As articulated earlier in this paper micro political risk refers to events within the political environment that affect a specific industry within a country. At a micro level, risks may result from changes in government policies that will influence certain sectors of the economy. Examples include specific regulations, taxes, local content laws, controls on repatriation of dividends, convertibility of currency and media restrictions.

Tarzi, (1992:12-25) defines certain micro-risk events which are specific changes within the public policy/regulatory environment of the host country which, if they occur have a negative impact on the profitability of a specific industry, company or investment project. Tarzi states that certain factors or micro political risk events signal a high level of risk for select industries or foreign investors within a country. These micro political risk events are:

- Monetary Risks/Private Remittance/Devaluation-Foreign Exchange Risk. This event will occur with the devaluation of currency and restrictions placed on the repatriation of profits of the company. These developments will allow the company to incur immediate financial loss, compounded with the fact that it is deprived of using its profits for growth.
• Fiscal Risks/Adverse Changes in Corporate Taxes. A shift in a country's ideology (*redistributive ideology*) can cause tax increases due to a new government wishing to finance costly programmes.

• Public Image of Foreign Firms. The negative perception of a company by the public or government in a country can occur especially in times of economic hardship and when the host country attempts to shift perceptions away from its own limitations.

Brummersted (1988: 79 – 81) expands on Tarzi's approach to micro political risks and characterizes micro political risk by identifying these risks as being those events that are aimed at select fields of foreign business. In his research Brummersted identifies Key Risk Variables (KRV) of micro (and macro) risk that are influenced by both internal and external factors within government and societal sectors. Within governmental sectors these internal KRV's regarding micro risk stems from selective expropriation, breach of contract, price controls, joint venture pressure, discriminatory taxes and local content/hiring laws. External KRV's revolve around such micro risk events such as bilateral and multilateral trade agreements, export/import restrictions, diplomatic stress and foreign governmental interference.

Societal KRV's on the internal obverse, revolve around factors such as selective terrorism, selective strikes, selective protests and the national boycotting of (the) firm. External KRV's include such issues as the actions of international activist groups, selective international terrorism, foreign Multinational Corporation competition and the international boycotting of the firm (Brummersted, 1988: 92-93). On the whole, few factors mentioned in this chapter (pertaining to societal or internal KRV's), presently manifest themselves in South Africa within the sectors this paper is concentrated on, i.e. issues that would negatively influence an investor from Taiwan to invest in South Africa.
Section 3: The Potential Taiwanese Investor and South Africa's Future

It is estimated that there are approximately 620 Taiwanese factories operating in South Africa. The majority of these factories concentrate on the production of plastics, electronics and textiles. Although subject to debate, the Taiwanese government estimates that a total of US$ 1.5 billion has been invested in South Africa in the last 20 years. Taiwanese investments tend to be labour intensive and have created 110 000 jobs (41 000 in South Africa) in the region (Pretoria News, 17 June 2003: 18). Taiwanese investors tend to reside and work in close proximity to each other (safety in numbers) and will relocate their entire extended family into the country. Furthermore, they will initially obtain permanent residence in South Africa after which they will apply for citizenship – bearing in mind that they will always retain their Taiwanese citizenship. At present, Taiwanese nationals – both investors and communities are inclined to gravitate to urban areas within the provinces of the KwaZulu Natal, Western Cape, the Free State and Gauteng.

The majority of Taiwanese investors settle in KwaZulu Natal as this province has in the past had a dynamic investment scheme that concentrated on attracting Taiwanese businesses/ investors. This programme was so vigorous, that it had municipalities within the province competing with each other to attract these investors. The city of Newcastle has the largest Taiwanese community in the province and in the country. The fact that KwaZulu Natal has the largest grouping of Taiwanese businesses has not inhibited other provinces from encouraging Taiwanese investors from establishing themselves. For example, in the Free State Province, it is estimated that Taiwanese businessmen have invested a total of US$ 320 million – 20% of the total Taiwanese investment in the country. The Taiwanese Ministry of Foreign Affairs is of the opinion that there are 79 Taiwanese companies/factories operating in the province with 2 000 Taiwanese citizens living in Bloemfontein alone.

Observers expected an exodus of Taiwanese investment from South Africa with the establishment of diplomatic relations between South Africa and the Peoples Republic of China (PRC) on 1 January 1998. With the conclusion of diplomatic relations between the PRC and South Africa, diplomatic relations between Taiwan and South Africa ceased,
(replaced by non-diplomatic Liaison offices). To date, few Taiwanese SMEs have left South Africa due to the absence of diplomatic relations. The Taiwanese government encourages SMEs to invest in those countries where Taiwan has diplomatic relations, such as Swaziland and Malawi. However, that government has been relatively unsuccessful, mainly due to the fact that South Africa offers a far higher quality of life for investors and their families. The country's infrastructure (such as schooling, medical services, electrical grid, roads and harbors) remains a strong incentive for these investors.

Political ideology on the part of the Taiwanese investor plays little to no role in determining whether to invest in a country, as reflected by the movement since 2000 of 40,000 Taiwanese companies to China with capital estimated at between US$40 billion to US$70 billion. The criteria remains profit, security and quality of life. South Africa offers two of the three.

3.1 African Growth and Opportunity Act

On 18 May 2002 the United States of America passed the African Growth and Opportunity Act (AGOA). The Act allowed for different trade opportunities to be presented to businesses in 36 sub-Saharan African countries, including South Africa. With the passing of this legislation, these countries were granted tariff-free and quota access to US markets for some 6,000 products. Furthermore, AGOA also offers African businesses greater access to US technology, expertise, credit and markets (African Business, January 2003: 30). By 2003 AGOA had expanded to 38 sub-Saharan countries and 6,100 products.

There is no doubt that AGOA benefits those African countries it includes. The United States of America is forward thinking and intensely aware of Africa's present and future potential within the realm of trade. Soon one billion consumers will live on the continent, and trade between US and Africa continues to increase. In 2002, US exports to Sub-Saharan Africa were 46% greater than those to Russia (including the former Soviet Republics), 47% greater than those to India and nearly twice those to Eastern Europe. US
exports to South Africa alone were larger than to US sales to Russia, whose population is more than 3.5 times as large (The Commission on Capital Flows to Africa, 23 June 2003). Added to this is the realization that Africa serves the strategic interests of the US as reflected by the fact that 16% of US imported oil originates from Africa. It is estimated that this will increase to 20% within the next decade.

AGOA-eligible countries have increased their exports to the US from 47% in 2001 to 64% in 2002. Oil producing countries are the largest beneficiary under AGOA, but trade to countries in which textiles are produced is growing dramatically, having increased by 123% in 2002. South Africa has benefited under AGOA and is presently the second largest AGOA exporting nation – the largest being Nigeria that exported a total of US$ 5.4 billion (mostly oil) in 2002. AGOA has allowed South Africa to increase employment within the textile industry by 89 000 in 2002, an increase of the 2001 figure of 62 000 (Pretoria News, 9 August 2002: 8).

The fact that South African textile manufacturers are about 50% cheaper than their American counterparts plays a deciding factor with regard to the attractiveness of South African textiles and garments to the US market (Pretoria News, 9 August 2003: 8). Furthermore, doing business in English remains a huge advantage for monolingual Americans. After the first two years of AGOA’s implementation, South Africa’s clothing exports had increased by 151% (Pretoria News, 4 July 2003: 17). In financial terms AGOA has allowed Africa to export US$ 9 billion to the US in 2002 – a 10% increase from 2001. For South Africa this meant an additional R 10 billion in 2001 which was 20% of the country's R 50 billion annual exports to the US. This figure is expected to increase to R14 billion for 2002 (Business Day, 16 August 2002: 4).

According to the conditions of AGOA, by 2004 apparel producers exporting to the US will lose their right to source their raw materials, mainly cotton, from countries other than those eligible under AGOA as Washington believes that Africa's textile industry and other growth sectors must integrate across the supply chain, and invest in training and production techniques, in order to hold their own in a competitive market. This factor
presents various challenges to Taiwanese investing in local knitting, weaving, dyeing and finishing factories who source most of their raw material from either Taiwan, China or another South East Asian country. As from 2004 these companies will be obliged to source their material(s) from an AGOA country. Presently there is uncertainty surrounding the fact that the US Congress has as yet not announced whether it will extend the AGOA deadline beyond 2008, which makes long term investment planning problematical.

The issues mentioned above do not seem insurmountable, considering the tenacity of many Taiwanese investors. However, these individuals should concentrate on certain basic fundamentals. These include hiring local managers, maintaining good labour relations and operating within the boundaries of the law. Unfortunately some Taiwanese companies run into problems by not complying with these essentials as reflected by the action taken by the South African Department of Labour when it found various Taiwanese companies in Ekandustria Park and Bronkhorstspruit compelling their workers to work 12 hours a day for R 130 a week (Pretoria News, 28 August 2003: 3).

Taiwanese (textile) investors are caught in juxtaposition with regard to investing in a developing country such as South Africa. On the one side South Africa offers an attractive life-style and a reasonable rate of return. However, should a Taiwanese businessman wish to invest in China within the field of textile production, his manufacturing wages will average at 60 (US) cents per worker, an hour – 10% of that in some neighboring Asian economies. Added to this is a seemingly infinite supply of workers, and an infrastructure that is designed for export (70% of China's exports are in garments, toys, shoes and furniture). An additional bonus is the fact that the Chinese yuan is pegged at a fixed rate to the US dollar (8.3 yuan to the dollar), thereby ensuring no volatility in its trade with the US within the realm of sudden currency fluctuations (The Economist, 15 February, 2003: 67).
3.2 A Future South Africa

A brief overview of the status and present position of scenario planning has been provided in section two. Furthermore, to allow the reader to place the current chapter and possible futures for South Africa in perspective, a short review of scenarios within the field of political risk analysis is provided.

The meaning of "scenario" as defined by the Oxford English Dictionary (1996: 1263) is "a postulated sequence of future events". The Penguin Dictionary of Politics (1993:428) expands on this by identifying scenarios as "any imaginary description of a possible future problem, which can be used by the potential actors to plan policy and strategy." Peter Schwartz, president of Global Business Network and former head of the renowned Royal Dutch/Shell planning department stresses that scenarios are a "tool for helping us to take a long view in a world of uncertainty...[they] are stories about the way the world might turn out tomorrow, stories that can help us to recognize and adapt to changing aspects of our present environment. They form a method for articulating the different pathways that might exist for us tomorrow, and finding our appropriate movements down each of these possible paths. Scenario planning is about making choices today with an understanding of how they might turn out" (Schwartz. 1994:16).

In this regard, the use of a "scenario" can be regarded as a tool for ordering one's perceptions about alternative future environments in which one's decisions might be played out. It is often the case that scenarios can assist people to foresee decisions that they might have missed or wished to entertain.

Schwartz stresses that "scenarios are not predictions; it is simply not possible to predict the future with certainty. Rather, they are vehicles for helping people learn. Unlike traditional business forecasting or market research, they present alternative images; they do not extrapolate the trends of the present" (Southern Africa 2020- Five scenarios, 2002: 16).
This chapter will concentrate on two different futures for South Africa in the year 2007 followed by three for 2017. One scenario for each of the two periods will serve as the base scenario. The base scenario reflects the most plausible future for the country and is based on certain features or trends in the society that are likely to endure and which are important and predictable. It should be noted that base scenarios are the empirical foundation on which all other scenarios are built on. Other scenarios fall within the universe of the base scenario and their believability should be tested against it. Furthermore, if a conflict occurs, it should be settled in favor of the latter.

Although the various scenarios for both 2007 and 2017 have been created with the interests of a potential Taiwanese investor in mind, they do not necessarily concentrate on a specific industry in South Africa as such, but rather on the anticipated macro state of affairs within the country. The various scenarios have been rated on a scale from 1 to 10. One being the most unlikely while 10 is seen as the most probable, according to past present and anticipated developments and inclinations.

3.3 Scenarios for South Africa: 2007

As mentioned previously two scenarios have been identified for South Africa in 2007. On the whole it is doubtful that the country will deviate too dramatically from its present position, bearing in mind that the first set of scenarios are less than four years away. It should be noted that when building scenarios, the present tense is used.

Scenario 1 (Base Scenario) – *On the straight but not so narrow*

- The African National Congress (ANC) remains the strongest political party in South Africa after winning the national elections in 2004. The ANC won a clear majority (average of 67%) in all the Provinces with the exception of the Western Cape where a coalition power sharing agreement continues to exist with the New National Party (NNP). Although the ANC won a clear majority in the province of Kwa-Zulu Natal a power sharing arrangement has also been established. The
ANC remains pragmatic, which allows the moderates within the organization to strengthen.

- The tripartite alliance between the ANC, South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) collapses. Issues surrounding the government's privatization programme and the SACP's and COSATU's opposition are the "final straw".

- Corruption and nepotism continues to be strongly present in all regions of society with prominent politicians, including three cabinet ministers being investigated for financial irregularities.

- The country's growth rate lingers at 3% but remains too low to raise real personal disposable income per capita by more than 2%. The country continues to muddle along the path of growth mediocrity, with very limited redistribution of wealth and income.

- The inflation rate remains at a satisfactory level.

- The real Rand exchange rate is at a level of competitiveness and hovers around R10.55 to the US$.

- Unemployment has become entrenched and is fixed at 32% (unofficially at 42%). Government programmes to create employment remain meaningless.

- Crime continues to increase and the South African Police Services (SAPS) remains ineffective in combating crime.

- Efforts are made to raise the educational and skills level of the labour force but few results have as yet been noticed.

- The government has by 2007 an operational programme in place to distribute anti-retroviral drugs on request. However, the programme is badly managed and has little impact at national level. HIV/AIDS has infected 7.5 million people throughout the country.

- The average life expectancy in the country stands at 42 years - this is mostly due to the AIDS pandemic.

- Issues surrounding land reform remain contentious although the government has managed to solve the most pressing issues. However, urbanization continues and as a result squatter settlements throughout cities and towns persist.
• Migration from countries north of South Africa remains unchecked.
• Affirmative action has decreased as it has been seen to be a failed policy. However, this is seen only in select occupations such as the medical profession and engineering, etc.
• The Brain drain has decreased and an influx of skilled labour is seen, mostly from Asia.
• Products from AGOA countries have been expanded and the US Congress has extended AGOA until 2015. The policy remains the most significant source of revenue for South Africa (and SADC) with regard to exporting to the US.

**PROBABILITY: 7.5/10**

Scenario 2 – *Pride before the fall*

• The African National Congress having won the 2007 elections under President N Zuma and have strengthen ties with its coalition partners by closely identifying with many of the ideological aspirations of the South African Communist Party (SACP) and Congress of South African Trade Unions (COSATU).
• The government adopts interventionalist policies to try to calm the disruptive environment brought on by unemployment and will begin to abandon the liberal economic development model it had been following in the past.
• Corruption continues unabated. Although senior politicians and civil servants have been identified as being involved in questionable action, the government action to stem these corrupt practices achieves little success.
• FDI has slowed to a trickle as foreign investors show concern that the government will introduce punitive regulatory policies.
• Economic growth is at 1.3%.
• Crime statistics indicates that the government remains ineffective in combating crime and corruption.
• Migration from the north of Africa continues with the South African Police Services (SAPS) only making symbolic arrests during media exercises.
• The brain drain continues with most people who leave citing crime and affirmative action as being the two most relevant issues for their departure.
• The Rand remains vulnerable and fluctuates between R10.90 and R15.80 to the US$.
• HIV/AIDS remains at a pandemic level with the government being unable to manage even an effective information campaign.
• AGOA and its numerous benefits for South Africa, is under direct threat. The US government has linked certain preconditions to AGOA, including direct support to the US on issues such as foreign policy and action against international terrorism. South Africa has indicated its reluctance to these US initiatives.

PROBABILITY: 3/10

As mentioned previously, given the fact that the first two scenarios are envisaged for 2007, it is not unreasonable to believe that South Africa will not undergo a rapid change in such a short period of time. Furthermore, the fact that the country has been placed on a specific path, as reflected by existing trends, it is believed that the country's most likely path is best reflected in Scenario 1.

Given the fact that the first scenario reflects South Africa's probable future – within the social, economic and political context – advice can be provided to the potential Taiwanese investor (specifically within the textile industry). In this regard, it is recommended that the investor heed these recommendations and opportunities:

• Establish his company/factory in South Africa in either the provinces of Gauteng, Western Cape or Kwa-Zulu Natal. Cape Town and Durban harbors can be used as the port of export for clothing and textiles to the USA under the AGOA initiative.
• Infrastructure within these three provinces is such that transportation, accommodation and location will not be a problem. Furthermore the local market within these regions is such that surplus product can be sold domestically.
• Provincial government (especially in Kwa-Zulu Natal and the Western Cape) is well disposed towards Taiwanese businessmen – their Premiers visit Taiwan on a regular basis. Both these Provinces have various incentives to assist investors.

• Large local Taiwanese communities in these Provinces are well entrenched and will assist an investor with establishing another Taiwanese enterprise. Furthermore there are consultants present who will assist the investor on how to operate within an existing framework with regard to complying with South African legislation and relationships with trade unions.

• These Provinces are all close to Lesotho and Swaziland. Swaziland retains diplomatic relations with Taiwan. Should developments within South Africa become more complex for the Taiwanese investor (as reflected in the second scenario), one can consider relocated to these two countries.

3.4 Scenarios for South Africa: 2017

Three scenarios have been identified for South Africa for 2017. Present trends within the country have been incorporated into these three anticipated futures. These scenarios (as with all others) are holistic and multifaceted and represent a synthesis that captures important aspects of (impending) reality and attempts to focus attention on them. It should be stressed that scenarios are sketches or outlines and are not meant to be an all inclusive description of all possible outcomes.

Scenario 1 (Base scenario) - We have great aspirations

• The ANC continues to dominate the political environment having won the 2014 elections with little opposition. The party is in full control of all eleven provinces. The autonomous provinces of Lesotho and Swaziland have also come under ANC leadership. A great deal of economic expectation remains in these two provinces after the King of Swaziland (2011) and Prime Minister of Lesotho (2015) were deposed by their citizens.
• Corruption is a major problem throughout the Federation of South Africa. The government has implemented harsh prison sentences of up to 25 years against any one found guilty of corruption or what is termed "crimes against the state".

• South Africa's economic growth rate remains at 3.5%. Inflation is now at 16% and unemployment is officially at 43%.

• Disparities in wealth continue and there is a high and increasing level of poverty.

• The Rand has remained stable for the last four years within the R14.80 to R15.50 to 1.00 $US range.

• Migration from the north continues unabated. It is estimated that at least 37% of South Africa's population were born outside the country's borders. The immigrants have formed interest groups that have an influential role within the ANC and other political parties as well as the various governments at municipal, provincial and central level. It is estimated that 68% of the country's population live in urban areas.

• AIDS remains the greatest killer in the country with an estimated 10 million South African's being HIV positive by 2015. The government continues to stress AIDS awareness with little success beyond advertising in the media.

• The policy of affirmative action was scrapped in 2014. However, there are some sectors where the policy remains in place, notably within the senior management structure of the public sector.

• AGOA (Phase III) has come into operation and includes approximately 90% of goods exported from South Africa to the United States. However, the AGOA policy includes numerous clauses including the support by South Africa of general US foreign policy.

PROBABILITY: 6.8/10
Scenario 2 – The continued slide

- A minority in the country live in relative luxury while the vast majority live in poverty.
- The ANC continues to dominate the political landscape in South Africa and remain unopposed at municipal, provincial and central government level. The democratic process remains in place and semi-functional.
- The inhabitants of South Africa have become increasingly xenophobic and there are weekly reports of attacks on refugees and foreigners who have moved south from the conflicts that continue to plague most of the countries outside South Africa.
- Immigrants in the country have formed their own "protection groups" and continuously attempt to pressurize the government to protect their interests.
- Corruption has become institutionalized although the government continues to stress the ills of the practice with symbolic arrests and convictions taking place against those who are "unprotected".
- Crime remains high and no effective action has been made by the government to combat these developments.
- The AIDS pandemic continues to be the largest killer in South Africa.
- Few foreign companies invest in the country and FDI remains a trickle. Multinational companies remain wary to invest in South Africa although smaller companies that concentrate on labor-intensive industries trickle in – mostly from China, Vietnam and Taiwan. The country that receives the most FDI in sub-Saharan Africa remains Namibia.
- The country’s economic growth rate remains fixed at 3% while inflation has reached 22%. Unemployment is at 46% although numerous jobs are unaccounted for in the informal sector.
- The Rand lingers between R17.80 to R19.70 to one US$ and remains volatile to internal events in the country.
- South Africa no longer qualifies for AGOA (Phase III) as the country decided in 2010 that it would no longer support the internationally recognized unilateral approach
towards international developments adopted by America. Ironically most of South Africa's neighbors have embraced the so-called Pax Americana doctrine.

- The free port of Maputo is being utilized to export the various products from the twelve AGOA qualified sub-Saharan countries. As a result the South African ports of Durban and Cape Town stand idle.

**PROBABILITY: 5/10**

**Scenario 3 – Death of the Dream**

- The country of South Africa has been fragmented into 16 enclaves and fiefdoms, which have further been separated into various "safe zones". The legal system within the enclaves each maintains their own code of justice.

- Police responsibilities have been privatized with Private Military Companies (PMCs) playing a prominent in maintaining law and order in many of the enclaves. Financing of police activities comes from the ownership of natural resources by the PMCs, for example in the fiefdom of Central Rand (formally known as Gauteng) two PMCs have mining rights and own 70% of all gold mines.

- Economically, the country is divided into two classes – the have-haves and the have-nots. The have-haves, who make up 7% of the total population, live in the enclaves within "protected zones". All needs are catered for within these zones including schooling and medical, etc.

- Crime has reached such proportions that traveling overland between the enclaves is almost impossible. There are airline flights between the enclaves, which is how the have-haves travel.

- The rural areas of the country have become ungovernable. Crime has become a growth industry and villages maintain a semblance of law and order through a system of "kangaroo courts". There are no more private farms – the last being taken over during the 2014 land invasion. However, some commercial farms
continue to operate under the management and protection of PMCs. These farms continue to produce enough food for the haves, but nothing remains for export.

- There are no democratic systems within the landmass that was once South Africa although two enclaves in the former western Cape have elections based on a qualified franchise.

- There is marginal local economic growth within the enclaves although most of this development centers on the security industry.

- Outside the enclaves HIV/AIDS, malaria, hepatitis, tuberculosis and malnutrition continue to reap a devastating impact on the population. There is some involvement by Churches and non-governmental organizations (NGOs) and international NGOs in providing basic health care. However, due to the security situation, their involvement is sporadic at best.

- The Rand remains the country's currency and trades at between R 180 and R 220 to the US dollar. On the black market one can get as much as R310 to the dollar.

- Much of the previous national government's legislation - including affirmative action no longer exists. The Brain drain peaked by 2012 and those qualified individuals that remain in the enclaves command high dollar and euro-based salaries.

- There is a Darwinist form of existence within the enclaves with little sympathy for the have-nots. Each group provides solely for themselves and co-operate with others in the knowledge that this allows for the whole to survive.

- There are no defined borders between the previous South Africa and its neighbours. This is best reflected by the enclave of the northeastern democracy that includes portions of the previous countries of Swaziland and Mozambique.

- FDI is non-existent although there are some multinational companies that operate within the enclaves. These institutions pay a specific "tax" to the governor's office and export their entire profit to their head offices in Asia, Europe and the US. The offices of the multinationals are termed temporary sites, due to the fact that they can relocate within four days should developments become too unstable.
The probability that South Africa will follow the path as outlined in the base scenario (scenario one) is high given the present trends within the country as well as those identified in the base scenario for 2007. Given the fact that the base scenario will be the most probable route that the country will pursue, advise to the potential Taiwanese investor is to:

- Remain in the country if he/she has already invested and attempt to employ local staff – including the managerial personnel.
- Many Taiwanese businesses in South Africa have formed police assistance associations whereby local police services are assisted in various manners to increase their activities – notably around properties and factories of Taiwanese investors. It is recommended that future investors join these associations and contribute to them.
- Consider supporting and investing in the dominant political party in the region you operate in and increase campaign contributions to the ANC.
- Consider diversifying. For example, maintain your core operations in South Africa but open smaller branch offices in Namibia, Lesotho or Botswana.
- A great deal of future expectation for the Taiwanese investor centers on what the future within the structure of AGOA will offer South Africa. It would be prudent to calculate present and future risk against what this Act will continue to offer the country and the businessman operating within the textile industry.
- The unfortunate reality is that South Africa has little more to offer to the Taiwanese investor or any other investor for that matter, than many other developing countries.
Conclusion

There are numerous approaches to political risk analysis that are utilized to evaluate the level of risk attached to any investment project in a given region or country. The primary reason for using scenario development in this paper is the fact that scenarios permit a greater amount of flexibility on forecasting a country's future by extrapolating from past trends and events and allows for the incorporation of unpredictable and unexpected actions.

The use of international ratings allow the reader to obtain an objective overview of where South Africa is within the international order pertaining to political, economic, social and financial developments. This further allows the international investor the opportunity to rate the country according to specific criteria and thus access its viability. According to the ratings provided in this paper, South Africa is in a mediocre position from an international perspective. Even from an African viewpoint the country rates above average but is not seen as a definite leader within any specific and viable category.

There is little doubt that South Africa has numerous challenges that not only detracts the potential investor but also highlights the macro political risk within the country. These risks range from socioeconomic issues such as corruption, unemployment, crime and AIDS to more sociopolitical factors for example the brain drain, affirmative action and land reform. There is little debate surrounding the need for these topics to be addressed. However, the inept approach used by the South African government only seems to compound many of these problems.

Taiwanese investors have a long and profitable relationship with South Africa. The quality of life exceeds anything they know in their own country. However, many Taiwanese businessmen remain unconvinced that the country offers a permanent opportunity for themselves in the medium to long term. There are too many uncertainties to counter this argument. Within the textile industry Taiwanese factories are profiting,
and this is directly due to AGOA. Should this legislation be annulled, there is little doubt that Taiwanese companies would close and relocate within three to six months.

The most credible (probability of 7.5 out of 10) (Base) scenario identified for South Africa in 2007 indicates little change in the country. All future factors indicate a country that maintains the equilibrium with gradual, almost unmarked progress. The government manages the country but almost seems to blunder on with few achievable objectives beyond what is expected at a primary level. On the whole South Africa is regarded as a safe but pedestrian investment prospect with little inspirational prospects. In these circumstances the Taiwanese investor within the textile industry is advised to remain in the country. The most significant component to operations, specifically within the textile industry remains AGOA. Without this statute, South Africa's textile industry would not be able to compete with other textile producing countries such as China, Vietnam, Malaysia and The Philippines.

By 2017 South Africa has not progressed as rapidly as most observers would have expected or hoped for, as reflected in the Base scenario. The country has not been able to present itself as an above average investment country with regard to attracting potential investors. The fact that AGOA (Phase III) is operational is possibly the only initiative that allows Taiwanese investors – specifically in the textile industry - to remain in the country.

South Africa faces numerous challenges, both in the short as well as medium term. The various detrimental issues such as AIDS, crime, corruption and unemployment are not resolvable without drastic and determinable action by the government of the country. Not only does the present leadership not seem to have the capacity to bring about a reversal of the situation, but also the political will is strongly lacking. Without clear policies that are enacted upon, South Africa will continue to drift in a sea of uncertainty, allowing the country to remain a mediocre nation and one that few investors are attracted to.
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