



Revisiting South Africa's Contemporary Political Risk Profile

Theo Neethling

University of the Free State, South Africa

Abstract

The impetus for this paper is a downgrading of South Africa by ratings agencies Moody's and Standard & Poor of South Africa's sovereign debt rating shortly after the so-called Marikana incident during the last months of 2012. The Marikana incident was followed by turbulence in the farming industry and related social tension and policy uncertainty in 2012. The question arises whether political, economic and social conditions in South Africa are currently posing greater political risk for potential investment than during the 1990s to mid-2000s. This calls for a fresh assessment of relevant indicators or variables in the South African context as well as a reasoned, empirically defensible and testable attempt that is not merely mirroring the idiosyncratic opinion of the analyst. In other words, what is needed is an analysis of relevant political risk indicators that are based on a sound intellectual tradition and practical logic. Against this background this study is an attempt to revisit and analyse current political risk in South Africa on the basis of a selected set of indicators or variables that are commonly and internationally used in risk analysis frameworks.

Introduction

In an authoritative and significant study conducted in 2005 on political risks for South Africa, Prof Albert Venter (now emeritus professor) argued that South Africa's macro-political risk image in the mid-2000s (*circa* 2005) could best be portrayed as a 'medium risk category' (Venter 2005, 52). Venter based his study on the identification of macro political risks in South Africa, specifically premised on risk indicators or variables used in research by Howell and Chadwich, which are widely recognised by international institutions, government agencies and major corporations as fundamental in operational and strategic planning (Venter 2005, 29-30; Fouché 2003, 11).

Since Venter conducted his research, South Africa has experienced an important change at the top-level of political leadership and much has changed in the political arena in general. Moreover, towards the end of 2012, South Africa experienced several serious so-called wildcat strikes in the

mining industry, social tension and regulatory uncertainty. This followed the tragedy at Lonmin's Marikana Mine on the 16th of August in the Rustenburg area of the North West Province that focused international attention on the South African political landscape after a series of violent incidents between the South African Police Service, Lonmin security, the leadership of the National Union of Mineworkers (NUM) being the largest trade union in the mining industry, and the striking Lonmin workforce. The Marikana incident resulted in the deaths a figure of more than 40 people, the majority of whom were striking mineworkers killed by the South African police service. Close to 80 additional workers were also injured on the 16th of August. The number of injured people during the strike remains unknown. This was followed by instability in the agricultural sector around the De Doorns town in the Western Cape Province where illegal protests resulted in severe labour unrest in the wine industry.

The main impetus behind the writing of this article is the downgrading of South Africa's sovereign debt rating in the aftermath of the Marikana incident during the last months of 2012 by ratings agencies Moody's and Standard & Poor. The downgrading means that the South African government will have to pay more for borrowing money, making it more challenging to finance infrastructure projects and the economy in general. The effect was specifically evident because of the wide range of Moody downgraded credit ratings: 12 municipalities, the Development Bank of South Africa and deposit ratings of Standard Bank, Absa, FirstRand, Nedbank and Investec. In fact, these institutions were all placed on "negative watch", meaning further downgrades could follow unless conditions improve (Shevel, Marais and Lefifi 2012).

In view of these developments, Kevin Lings, chief economist at Stanlib, indicated that unlike country downgrades for instance in the European Union, South Africa's downgrade "is not because of a tough economy. It has to do with our domestic issues and the way we have not managed to articulate our economic policy... that has led to a high degree of uncertainty around policy" (as quoted by Shevel, Marais and Lefifi 2012).

The question arises whether political, economic and social conditions in South Africa are currently posing a greater political risk for potential investment than during the 1990s to the mid-2000s. This calls for a fresh assessment of relevant indicators or variables in the South African context as well as a reasoned, empirically defensible and verifiable investigation that does not merely mirror the idiosyncratic opinion of the analyst. In other words, what is needed is an analysis of relevant political risk indicators that are based on a sound intellectual tradition and practical logic (Venter 2005, 28-29). Against this background, this study is an attempt to analyse current political risk in South Africa based on a set of indicators or variables that are commonly used internationally in risk-analysis frameworks.

Background: Notes on Risk Analysis and the South African State in 2013

Fouché (2003, 1) explains that numerous risk factors impact on the general conditions and investment environment of a country where foreign involvement is contemplated, irrespective of the nature and scope of involvement. McKellar (2010, 6) states that political risk is relevant because it is important for businesses to understand and is inescapable when dealing with markets.

Political risk directly relates to the functioning of two very different, but interacting domains, namely business and politics. Business exists to create profits for itself and its stakeholders, and business leaders or managers share a mindset around the ideas of market share, growth margins and return on investment. Business is affected by the laws of the state, and business furthermore takes place in a framework ultimately set by political authority and social relations. In developed states, business can afford to take this framework for granted, but in developing states, business needs to adapt to changing and often volatile political landscapes (McKellar 2010, 6-7).

In view of the above, political risk can be defined as a potential harm to a business operation arising from political behaviour. Political actors and their behaviour are concerned with the social organisation and underlying ideals of society. The basis of political actors and their behaviour relate to issues pertaining to authority, ideology, political culture, social identity, the social good and the levers of power to influence these (McKellar 2010, 6). South Africa is a developing country, and given the country's political dynamics over many years, political risk has always been an issue and will remain important in the evolution of the future political landscape in South Africa. This point has been highlighted in the post-Marikana context when several authoritative analysts and commentators remarked and commented on the future of South Africa. For instance, Clem Sunter (2012), former Chairman of the Anglo American Chairman's Fund and probably South Africa's most prominent scenario planning practitioner, stated that

Just over a year ago, Chantelle Illbury¹ and I were giving a 70% probability to South Africa staying in the Premier League, 30% to a peaceful decline into the Second Division and zero to a Failed State. With the tabling of the Secrecy Bill, we changed to 50% for Premier League, 40% for Second Division and 10% for Failed State... With the Marikana tragedy ushering in a period of industrial turmoil, which aggravated by the lack of service delivery, can escalate into a full-blown South African version of the Arab Spring, we have revised the probability yet again. While we are keeping Premier League at 50%, we now have amended the changes of a peaceful versus violent, anarchic decline from 40:10 to 50:50 and therefore accord the Second Division and Failed State scenarios each a 25% probability... Like everyone else, neither Chantelle nor I wish to raise the probability of a terrible outcome. But the flags say otherwise...

¹ Sunter's colleague.

Given the need for a fresh and thorough assessment of political risk in South Africa, this article is methodologically, largely based on work done by Venter (2005), who employed fifteen risk indicators to determine the current political risk for South Africa. These are: threatening neighbouring states and foreign policy environment; authoritarian measures to retain power; staleness of incumbency and leadership succession; legitimacy of government; military involvement in politics; social risk (including terrorism and religious fundamentalism); socio-economic conditions; racial, ethnic and religious cleavages; Black economic empowerment; trade union activism; safety and security; labour policy; macro-political-economic circumstances; administrative (in)competence in government; and the security of private property.

In an attempt to determine or measure continuity and change in the political risk profile of South Africa, a combination of the variables or indicators in the academic work of Fouché (2003) and Venter (2005) are being used in this article as a framework of analysis for assessing South Africa's current political risk profile. The article does not claim to present a complete political risk analysis, but to provide the readership with a basic overview of some of the most significant indicators or variables needed to determine or outline South Africa's current political risk profile.

Threatening Neighbouring States

Threatening neighbouring states as a variable or indicator relates to what is also described as 'bad neighbours', which concerns the regional situation in which a country finds itself. Nearby superpowers usually come into play as a factor because they are inclined to control their immediate surroundings, sometimes forcibly. This variable may also include regional trouble spots, especially those having a history of continued violence, such as the Middle East (Fouché 2003, 28-29).

In the mid-1990s, South Africa experienced a reasonably secure external environment. There were no immediate enemies or competitors for regional hegemony and the country was not threatened by a powerful state. On the international scene South Africa has started to play a significant role with former President Thabo Mbeki as a respected state visitor to many countries (Venter 2005, 31-32).

In recent times, South Africa has remained officially committed to continue to focus its foreign policy on promoting the integration of the Southern African Development Community (SADC), the unity and the renewal of the African continent, South-South cooperation and North-South dialogue. South Africa is also firmly committed to working with other countries for a global system of governance that is democratic and responsive to the interests and aspirations of developing countries through bilateral and multilateral diplomacy (Nkoana-Mashabane 2011, 3-4).

It can further be stated that South Africa faces no immediate threat by so-called bad neighbours and its regional context is a far cry from the threatening regional environments that are facing countries such as Israel or South Korea. At the same time, it should be noted that Africa is the region most affected by international terrorism, specifically as terror continues to feed on sources pertaining to huge imbalances and disparities in socio-economic conditions, corruption and ineffective governance (Cilliers 2012, 2). At the same time, many of these challenges manifest in countries such as Nigeria, Somalia, and Kenya. Southern African states are generally (except for Tanzania) not associated with terrorist activities. Furthermore, none of South Africa's neighbours seem to face any significant political threat in the form of potential armed insurrection or terrorism. At most, they face challenges posed by "African voters [who] demand more than historical mobilisation as justification for their vote, particularly in urban areas where social media is experiencing massive growth" (Cilliers 2012, 2). However, the so-called Zimbabwe factor in South Africa's regional environment (Venter 2005, 31) remains a factor, if only in the form of a potential influx of illegal immigrants. But generally, few if any investors or observers will argue that South Africa is located in a bad neighbourhood marked by high political risk.

Authoritarian Measures to Retain Power

Authoritarianism pertains to a lack of democracy, ranging from totalitarianism to authoritarianism that may lead to discontent. Violence usually lies very close to the surface. This indicator includes rigid control over citizens, even though sometimes superficial control (Fouché 2003, 28-29).

Venter (2005, 33) described the South African political landscape of the mid-2000s as a democratic state where the government did not need any authoritarian measures to retain power. However, the country's body politic was marked by an absence of a strong formal opposition that could act as a serious political contender at the polls. The problem is that a state under long-term one-party dominance, despite its nominal constitutional democratic status, is still prone to sink into arrogance and corruption, and to confuse the interests of the state with that of the party.

In recent years the Democratic Alliance (DA), the main parliamentary opposition in South Africa, has managed to make some inroads by winning 16.7 per cent of the national vote and 67 seats in the National Assembly, which are up from 12.3 per cent of the vote and 50 seats in the National Assembly in 2004. The DA also won the Western Cape Province with an outright majority of 51.1 per cent of the provincial vote (Democratic Alliance 2012).

Despite the DA's gains at the polls, *The Economist* (2012) maintains that nearly two decades after apartheid ended, South Africa is becoming a de facto two-party state. Jolobe (2012, 6) likewise contends that the ANC has consolidated its position "as a ruling dominant party" in the "absence of real interparty political competition", although intraparty competition has become

highly significant with small alliances of people uniting to further their own private interests within the organisation. What is especially disturbing, is Makhanya's contention pertaining to a blurring of the line between party and state in South Africa, and that public servants are recruited on the basis of political connections rather than skills and expertise (Makhanya 2011, 4).

In view of the above, authoritarian measures to retain power as an indicator does not seem to be spelling high political risk *per se*, but indications are that the ruling ANC is not following an approach of clearly distinguishing between administrative and political systems (Makhanya 2011, 4). This certainly does not instil confidence in South Africa's state institutions – a point that is clearly endorsed by *The Economist* (2012). In fact, the phenomenon of so-called cadre deployment – where the ANC's deployment strategy systematically places loyalty above merit and even of competence – has been cited as a serious obstacle to efficient public service by various commentators and role-players, among which the Human Sciences Research Council (Areff 2012).

Staleness of Incumbency and Calibre of Leadership

Fouché (2003, 28-29) explains that staleness, as based on the Economic Intelligence Unit of *The Economist*, occurs when a leader has been in power for a period of longer than ten years. Such leaders tend to become detached, stale, and complacent, which in turn may encourage corruption, disdain and delay in political processes. Staleness of incumbency also relates to the hegemonic position of a party – which certainly applies to the ruling ANC in South Africa, which has been in power since 1994. Few political analysts, if any, would disagree with the point that the ANC today, is facing a severe challenge of staleness of incumbency – a point that was strongly argued by Venter (2005, 34) in the mid-1990s.

Venter (2005, 34) described South Africa's political leadership during the mid-2000s as being of a “reasonably high calibre” and that (former) Pres. Thabo Mbeki set a fine example of leadership. At the same time, Venter highlighted the issue of Mbeki's successor as a “general risk”. His remark concerning an “unsavoury wrangle about the position of Jacob Zuma, deputy president of the ANC and dismissed deputy president of the country” was particularly instructive and significant (Venter 2005, 34). However, it is common knowledge that Zuma managed to survive the controversial Shabir Shaik trial regarding corruption in an armaments deal in 1999-2000, and that he became the president of South Africa after he masterminded the removal of Mbeki as president of the ANC and South Africa's head of state (see Chikane 2012).

As South Africa's head of state since 2009, Zuma has been severely criticised in the media by analysts and commentators, and by middle-class South Africans for his poor leadership. *The Economist* (2012) describes him as someone who

had had a string of close shaves with the law for both grand corruption and squalid sexual behaviour; in his favour were his charm, homespun intelligence and canny ability to mediate between people and the many factions that make up the ANC. But stuck between the impatient masses stirred up by racial populists such as Julius Malema [the former leader of the ANC Youth League] on the one hand, and anxious capitalists and greedy party bigwigs on the other, he has drifted and dithered, offering neither vision nor firm government.

Like many other public commentators, Prof. Hussein Solomon, senior professor of Political Science at the University of the Free State, publicly lambasted Zuma for his poor political leadership and lack of government strategy to deal with the relevant issues while South Africa experienced a wave of strikes in the mining and transport industries. In the cynical words of Solomon: "South Africans, you are on your own. Do not look for leadership from this rudderless, morally bankrupt and intellectually inept government to get you out of this mess" (Solomon 2012). Former Johannesburg Stock Exchange CEO and respected businessman, Russel Loubser, likewise blamed South Africa's top leadership for failing to recognise the serious problems facing the country, listing the Marikana killings as a crisis that could have been avoided.

Even former president Thabo Mbeki took the extraordinary step to lash out against Zuma's leadership of the country. Mbeki did not mention Zuma by name, but it was clear that he was referring to Zuma when he expressed "great unease" with the "dangerous and unacceptable situation of directionless and unguided national drift" (Ngalwa, Shoba and Kgosana 2012). Clearly there is much concern about Zuma's leadership among many middle-class and well-informed South Africans and in this regard few outside the ANC would argue that South Africa's top leadership is still of a 'reasonably high calibre' or that South Africans have little to be concerned about as far as the quality of top leadership is concerned.

Zuma's position as ANC leader was strengthened at the ANC's Mangaung (Bloemfontein) Conference in December 2012. For many observers the election of ANC veteran and business magnate, Cyril Ramaphosa, to the second-most senior position of deputy president of the governing ANC, brought new hope that his accession to the top level of political leadership will inject new energy into Zuma's "tame" and "unimaginative" leadership and steer the country in a new trajectory (Jongbloed 2012, 8).

Legitimacy of Government

Fouché (2003, 29) explains that legitimacy refers to the unforced and positive acceptance of rule by the citizenry. The gap between a government's acceptability and its insistence to remain in power indicates its lack of legitimacy and increases the level of risk in a country. There can be little doubt that the ANC enjoyed legitimacy as a government since 1994, but it progressively had to face legitimacy challenges at municipal level since the mid-2000s; incidents that clearly

demonstrated dissatisfaction with local authorities or municipalities on a broad basis (Venter 2005, 37).

It is clear that dissatisfaction with municipalities have increased considerably over the past decade. In fact, it seems that confidence remains far lower in this sphere of government than at the national and provincial levels. Research undertaken by the Institute for Justice and Reconciliation is instructive. In 2010, more than half of all South Africans, i.e. 55 per cent, indicated that they have little or no confidence in local government (Lefko-Everett, Nyoka and Tiscornia 2011, 19). Higher than expected voter turnout at the 2011 local government elections was an important signifier of greater democratic participation, but this is balanced by research results indicating that since 2005 an estimated average of more than 8 000 “Gatherings Act” incidents were recorded per year. In this context, it should be noted that collective dissatisfaction in South Africa is often shown through public demonstrations and that these protests “have reached extremely high levels since 2005” (Lefko-Everett, Nyoka and Tiscornia 2011, 13-16).

The Institute for Justice and Reconciliation finds that low levels of both public confidence in local government and trust in elected leadership and public officials are reason for concern, and that increasingly violent and destructive ‘service delivery’ protests may foreshadow events yet to come. This is undoubtedly an area that requires dedicated efforts towards improvement (Lefko-Everett, Nyoka and Tiscornia 2011: 47) as it has the potential to spiral out of control and results in further destruction of public infrastructure and private property. This is one area that points to considerably greater political risk than what existed during the 1990s and early 2000s.

Military Involvement in Politics

Internationally, political interference by the military is sometimes spurred on by the absence of a legitimate civilian government, resulting in the military taking control of government (Fouché 2003, 29). At the same time, it should be stated that the past two or three decades have seen a shrinkage in the political role of the military and security establishments in many parts of the world. Elections have replaced military coups and full-blown military regimes have become something of a dying breed, but the longstanding legacies of military rule continue to cast a shadow over many newly created democracies (Luckman 2003, 7-8). In the African context, this remains an important political factor as is evident in Egypt at the time of writing.

During the apartheid era, the policy-making process in South Africa was significantly militarised. Acutely aware of the relative lack of civil supervision of the security organisations during the apartheid era, the constitutional planners and the ANC-led government went to considerable lengths to ensure that control and supervision of the military was vested in democratic structures (Cawthra 2003, 33-38). Earlier, Venter (2005, 36) argued that military involvement in politics was an insignificant political risk and recently Cilliers (2012, 2) remarked that the South African National Defence Force (SANDF) is an important if

unappreciated foreign policy instrument of the South African government and serves the national interest of the country in many ways. Thus, the potential of political interference by the SANDF does not pose a political risk of any substance. What might be more of a concern in the broader political context relates to the issue of the SANDF's operational budget that has been stripped to the bone, resulting in capability gaps and poor maintenance of sophisticated equipment in the SANDF (Jordan 2012, 2). Of even greater concern than the operational state of the military and its (potential) involvement in politics are assertions that the intelligence services remain central to the power structure of the South African state. In this regard, Pres. Zuma apparently constantly drew on his intelligence connections – intelligence officials and military figures – to support or sustain his presidential power base (see for instance Holden and Van Vuuren 2011).

Social Risk: Extremism, Religious Tension and Terrorism

This indicator or variable could relate to the domination of society or government by a single religious group that seeks to exclude other religions from political or social structures and processes; to suppress religious freedom; to replace civil law by religious law; or to dominate the governing process. Religious radicals can have a major impact on a country and the political risk associated with a country (Fouché 2003, 36). After all, events in relation to the 9/11 tragedy have highlighted the threat of international terrorism associated with religious militancy and its impact on a singular state.

Venter (2005, 37) remarked that despite the warnings of the former Minister of the Intelligence Services, Ronnie Kasrils, that al-Qaida might have sleeper cells in South Africa, it is unlikely that South Africa was seen as a high priority for al-Qaida and related Islamist movements. He also stated that since 1994 the potential of revolution or revolts against the government has decreased, although the potential for societal instability in relation to right-wing militancy or bombings by groups such as the People Against Gangsterism and Drugs (Pagad) remained as a “dormant risk”.

In recent years, barring the arrest of a handful of right-wingers in 2012 whose political intent was to target ANC leaders, no serious incidents in the form of militant action against the state from either right-wing or religious extremists have been recorded in recent years, bringing the potential for such societal instability to a comparatively low level. Furthermore, in recent years religious intolerance has not been cited by researchers or analysts as a significant threat to societal stability. However, as it has been pointed out, social risk in the form of service delivery protests have increased markedly and this particular phenomenon remains a factor of the highest concern in any consideration of forces and events that could negatively influence investors' confidence.

Lastly, a type of xenophobia against illegal immigrants has developed in the past decade (Venter 2005, 31), something that has been prevalent in the form of attacks on foreign nationals since late 2007 to 2008. Xenophobic attacks have reappeared in 2013 but this has not posed a significant threat to security on a national scale.

Socio-Economic Conditions

Socio-economic conditions as an indicator attempts to measure the satisfaction or dissatisfaction with the socio-economic policies of the government in a country. Relevant socio-economic factors vary from country to country and include, among others, aspects ranging from infant mortality, the provision of medical care to the level of interest rates. It could also relate to disparities between different strata of society or an unequal distribution of wealth and their impact on social challenges such as crime, unemployment, illiteracy, drug use and health conditions (Fouché 2003, 32-35).

In his earlier analysis, Venter (2005, 37-38) highlighted two issues of major concern in South Africa, namely extreme differences in wealth and the Aids pandemic. As far as the wealth differential was concerned, South Africa's has always been one of the steepest in the world. Obviously, in a democracy this has an effect on the political risk for investors since the governing minority will be inclined to overtax the wealthy. The only positive aspect has been a growth in the middle class, which, according to Venter (2005, 38), "augurs well for longer term political stability and economic growth".

Much has been written about the Aids pandemic in South Africa during the Mbeki-era. Suffice it to say that the prevalence rate in the age cohort of 15-49 was estimated at 21.5 per cent (Venter 2005, 39). This was the single, predominating topic of Mbeki's reign in high office, since he believed that "HIV was a harmless passenger virus and that Aids symptoms were caused by malnutrition and antiretroviral therapy" (Asmal 2011, 214).

Few informed South African observers would still list the Aids pandemic among the most acute challenges for the current South African government. In fact, the government has been issuing anti-retrovirals to patients on a national basis. Unfortunately, the same cannot be said of issues relating to unemployment, poverty and inequality. The "triple challenge", as it has been dubbed by President Zuma, is currently South Africa's most vexing social and human-development predicament (Mail & Guardian 2012a). Measured in terms the Gini coefficient, South Africa – at 63.1 or an equivalent 0.63 – is much higher than developing countries such as Brazil at 54.7 and India at 334 (Mail & Guardian, 2012c).

According to Mark Cutifani, chief executive officer of AngloGold Ashanti, unemployment is "the most dispiriting in the short term, and potentially debilitating in the long term" (Cutifani

2012, 5). In terms of the official definition², the unemployment rate was 23.9 per cent (Statistics South Africa 2012a, 56). What is of particular concern is that South Africa's unemployment is most acute in the 15-34 age cohorts. Thus underlying the general unemployment crisis is primarily a youth unemployment crisis. Small wonder that youth unemployment in South Africa is often described as a ticking time bomb (Statistics South Africa 2012a, 61; Cutifani 2012, 5).

The problem of youth unemployment is further underlined by figures of dispiritingly low levels of educational achievement in the 20 years and older cohort. Out of this group, 8.6 per cent recorded "no schooling" as their level of education; 12.2 per cent recorded "some primary"; 4.6 per cent recorded "completed primary" and a staggering 33.8 per cent recorded "some secondary". This means that one-third of South Africans older than 20 years have not completed their secondary education. Furthermore, 28.4 per cent South Africans above 20 years have completed Grade 12 (Standard 10), while only 12.1 per cent have any form of post-school qualification (Statistics South Africa 2012a, 48-49). Although the figures have improved gradually over the past decade (Statistics South Africa 2012b, 2), these figures still spell high political risk and could result in future social instability.

Moreover, the gap between middle-class black-and-white schools at the upper ends of academic performers and the masses of children in poor schools seems to be widening (Jansen 2012a, 1). It is obvious that problems in South Africa's schooling system cut deep and wide into matters relating to skilled labour in South Africa. Many communities have become disenchanted with their political, economic and social conditions.

Safety and Security

This indicator or variable is also sometimes described as "law and order". Law entails an assessment of the strength and impartiality of the legal system, whereas order relates to an assessment of the popular observance of the law of a country (Fouché 2003, 36). Venter uses this indicator to reflect on crime rates in South Africa as well as the measure of corruption in society. He cited safety and security in South Africa during the mid-2000s as one of the biggest concerns for foreign and local investors in South Africa. He also pointed out that South Africa measured badly on the Transparency International Corruption Index, having been listed 48 out of 140. He concluded that crime, safety and security, as well as corruption posed a significant political risk to investors in South Africa (Venter 2005, 43).

Many South Africans would probably argue that little has changed in South Africa since the mid-2000s. Yet, statistically it seems that South Africa's overall crime situation has improved steadily over the past decade. Since the 2002/03 financial year, when total crime levels peaked in South Africa, the overall crime rate has decreased by 21 per cent. However, this trend changed

² Persons who did not work, but were available to work in the reference period.

when a 3 per cent increase in total crime levels was recorded in the two-year period between 2007/08 and 2009/10. Total crime rates decreased again by 2.4 per cent between 2009/10 and 2010/11, whereas the latest figures indicate a decrease of 0.6 per cent³ (Institute for Security Studies 2012, 1).

What should be noted, however, is that data gathered by Municipal IQ, an independent local-government-monitoring agency, indicated that a 289 per cent increase in the number of violent protests against municipalities was recorded between 2008 and 2009. There was a slight drop in the number of protests in 2011, but an increase again in 2012 (Newham 2012). What is also of interest is that though crime statistics indicate a decrease in most crimes, a survey conducted by Statistics South Africa reveals “a nation gripped by fear”. In short, public perceptions show a high level of fear and distrust in the police and law enforcement in general (Masombuka and Hosken 2012, 5).

Lastly, as far as corruption goes, South Africa has slipped further down in recent times on Transparency International’s Corruption Perceptions Index. From 2010, the country’s ranking has steadily declined from 54th to 69th of the countries surveyed in 2012 (Lewis 2012,14). Although the regulatory environment in South Africa has continuously been improved, corruption is rife in the granting of government contracts. Bribery thrives in government circles and the Broad-Based Black Economic Empowerment Strategy has been criticised for too much preferential treatment to wealthy black elites in relation to receiving government contracts (Business Anti-corruption Portal 2012) – a point also raised by Venter (2005, 40) several years ago.

Racial, Ethnic and Language Cleavages

Fouché (2003, 36-37) explains that countries with high levels of ethnic tension are generally awarded poor ratings as such societies generally represent “a negative political environment”. Likewise, the dominance of a particular society by a single religious group tends to lead to the exclusion of other religions from political or social structures.

Venter (2005, 39-40) maintained that South Africa in the mid-2000s experienced colour/racial and ethnic divisions in society that were substantial and exclusionist. These differences were deep and a potential source of tension. Also, support from the voting population for political parties was mostly racially based.

Recently, Lefko-Everett et al (2011, 19) contended that South Africa remains a deeply divided society – something that has been a discouragingly consistent finding of the SA Reconciliation Barometer (SARB) survey, conducted by the Institute for Justice and Reconciliation (IJR) since

³ It is important to remember that these figures only tell us about crimes that were recorded by the South African Police Service (SAPS).

2003. However, they also pointed towards “important and positive signals” of progress in reconciliation, social cohesion and nation-building in recent years. Lefko-Everett (2012, 12) even asserts that as time goes by, South Africans become increasingly less likely to identify race as the most significant or biggest division in the country. Instead, the gap between rich and poor is named most frequently as the “fault line” that runs through South African society. She reports the following based on research conducted by the Institute for Justice and Reconciliation:

Social scientists have considered this possibility for a number of years. As time passes, generations change and the lived memory of apartheid fades, will historically defined racial identities be overtaken by stronger associations built around income and class? Some seem to think this is happening already, including a number of participants in a qualitative study conducted by the IJR [Institute for Justice and Reconciliation] in 2011. One explained, ‘before we had social classes that were based on race. Today we have classes based on your social status. How much money you have.’ This is an important finding, and one that both provokes interesting debate and guarantees us real estate on newspaper front pages.

In view of the above, respected educationist Jonathan Jansen remarks that the socioeconomic arrangements in the country favour greater inequality over time, but that “[t]he growing inequality will be based on class rather than race...” (Jansen 2012b, 15). In consideration of the above, Lefko-Everett et al (2011, 19) are probably correct in their analysis that most citizens continue to support the goal of national unification, despite strong associations with other identity groups based on language, ethnicity and race. Thus, in terms of political risk, this probably points towards the need for new consideration of a more inclusive and tolerant national identity, while at the same time realising the significance of inequality based on class as a factor of considerable political risk.

Trade Union Activism and Labour Policy

Venter (2005, 41) stated that union activism was the one potentially serious societal political risk that remains an issue in the post-apartheid state, and which is as relevant in 2013 as before. The political dynamics of this variable revolve around the fact that the governing ANC is in a long-term historical alliance with the black-dominated trade union, Cosatu. Therefore, the ANC government has been sensitive to trade union pressure, although quite visible tensions between the government and the trade unions have been the order of the day (Venter 2005, 41).

From an international point of view, views are mixed on the recent violence witnessed from some strikes in the mining industry. While some South Africans may view the strikes as natural, given South Africa's history of labour unrest, perceptions in the international business community are that the country's labour law system has failed South Africans. Others have adopted a wait-and-see attitude (Mittner 2012, 23).

Generally, many commentators seem to support the view that the Marikana dynamics have brought a new dimension to the challenge of labour unrest in South Africa. The observations of Oppelt (2012, 5) are especially instructive:

We've heard the call to strike from unions more times than we care to remember, seen the news flash evidence of 'rampaging' workers and listened to the threats that the mother of all strikes would be unleashed on us... But this time things have gone awry. Marikana and the gunfire broadcast on our flat screens on August 16 changed all of that.

Of great concern in regard to the violence that occurred at some of the above-mentioned strikes in the mining industry, is that the wage agreements negotiated by the majority union were basically unilaterally terminated by the labour force. This has sparked one of South Africa's most widely respected mining executives and CEO of Exxaro, Siphon Nkosi, to state that the rule of law was shaken by the dynamics at Lonmin's Marikana mine. The situation basically boiled down to a case where "wage agreements no longer seemed worth the paper they were written on" (Barron 2013, 3).

With reference to South Africa's labour legislation, Venter (2005, 44-45) observed a marked increase in the regulatory environment for businesses since 2000. More measures that are bureaucratic were put into place with regard to the protection of workers, resulting in a perception among investors that labour laws are inflexible; that the labour force is overprotected by the law; and that labour productivity is low. Also, organised labour has constantly been driven by the view that greater state intervention in the economy is needed. Where elements in government have attempted to critically assess and deal with inflexibility in South Africa's labour legislation, such attempts have been met with fierce reaction from the labour unions. Thus, Oppelt (2012, 5) rightly observes that

[Finance Minister] Pravin Gordhan is truly a brave man for sticking his neck out (not once, but twice) on the need to revisit South Africa's labour legislation. The first time he did so, last August – in the context of unacceptably high levels of unemployment – he became a target of insults and vitriol from the unions. Then he was called a right-winger, and Irvin Jim said he would ask President Jacob Zuma to fire him.

The drift of this criticism should certainly be a cause for concern. According to the latest World Competitiveness Report from the World Economic Forum, South Africa dropped from the previous year and ranks 113th for labour market efficiency. It ranks 143rd for its rigid hiring and firing hiring-and-firing practices, 140th for lack of inflexibility in wage determination by companies, and 144th for significance of tensions in labour relations (Shevel 2012).

Macro-Political and -Economic Circumstances

Venter (2005, 46-49) analysed the macro-political circumstances in South Africa in the mid-2000s in terms of four sub-variables: income tax; structural problems in the economy; some macroeconomic indicators; and the ability to attract foreign direct investment. In brief, firstly he contended that personal income tax and company tax, by international standards, were high. Secondly, he argued that South Africa experienced a number of serious structural problems in its economy relating to issues such as trained human capital, a low savings rate and a comparably low productivity rate. Thirdly, he attended to the country's fiscal and monetary policies, which he described as "defensible". Lastly, he attended to South Africa's ability to attract Foreign Direct Investment (FDI). Importantly, he argued that the Government was prudent and pragmatic in macroeconomic management since 1994, but that elements in the ANC alliance, specifically Cosatu, were decidedly anti-business in their political economic approach.

Without going into much detail, based on the above-mentioned variables, it could be argued that little has changed since the mid-2000s. Firstly, as far as tax rates in South Africa are concerned, Steenkamp (2012, 1-2) correctly points out that the country is characterised by large income and taxable income inequality. This is clear from the fact that in 2010, the taxable income share of the top 10 per cent of the population was 47 per cent and that of the top 1 per cent of taxpayers approximately 18 per cent. In comparable international context, this means that a heavy tax burden is highly concentrated in a narrow tax bracket.

Secondly, as far as pertinent structural problems in the economy are concerned, schooled labour and trained human capital are among the most serious challenges in present-day South Africa. Furthermore, according to research conducted by Adcorp, a JSE-listed human capital management group, labour productivity – defined as making the most of limited resources, and identified as a paramount economic goal – has "from the 1993 peak... fallen by a steep 41%" in 2012 (Moneyweb 2012; Mail & Guardian 2012b). Without going into detail on calculating labour productivity, and accepting the fact that there are differences over the measuring of productivity in South Africa, analysts are mostly in agreement that the public sector is suffering much more from poor labour productivity than the private sector (News24 2012).

Thirdly, the International Monetary Fund's (IMF) stated in its 2012 report on South Africa that the country has a stable and resilient economy but one that could do much better. The IMF downgraded South Africa's growth forecast to 2.6 per cent for 2012 and to 3.4 per cent for 2013. The IMF attributes the downturn in the economy to the ongoing debt crisis in Europe, South Africa's main regional trading partner. The report highlights external risks facing the country, especially a slowdown in the Chinese economy, but perhaps more importantly, also identifies certain domestic risks. These include lingering external competitiveness problems, a growing public sector wage bill, and the need to create more labour-intensive growth.

The IMF commends South Africa's fiscal and monetary policy approach. The country's fiscal stance has a stimulating effect on the local economy, given a weak external demand and a negative output gap. However, the report cited the country's growing public sector wage bill as a concern. The IMF further considers South Africa's flexible exchange rate as an important shock absorber, helping to smooth the impact of external shocks. At the same time, the IMF cited various indicators pointing to ongoing problems with external competitiveness as a result of high domestic costs of production, including unit labour costs. Not surprisingly, the IMF also argues that the country needs to take more action to create labour-intensive growth (SouthAfrica.info 2012).

Officially, the South African government is firmly committed to increase the quality and magnitude of foreign and domestic direct investment and to undertake effective investment recruitment campaigns through its Department of Trade and Industry (Department of Trade and Industry 2012). Yet, the ANC's alliance partner, Cosatu, takes a sceptical and even antagonistic view of foreign-ownership in South Africa which they describe as "deeply embedded in the global networks of monopoly capital" and "a function of the class forces that manipulate the mineral sector" in South Africa. This reiterates the above-mentioned assertion that elements in the ANC alliance, (Cosatu inclusive), are decidedly anti-business in their approach.

Administrative (In)competence in Government

Fouché (2003, 37) explains that the less responsive a government may be to its citizenry, the more likely it is to fall, either peacefully in a democratic system or violently in a repressive society. In this context, Venter (2005, 50) viewed administrative incompetence in the public sector during the mid-2000s as a significant political risk for investors in South Africa – an observation that coincided with riots at local government level due to poor governmental performance.

As already intimated, dissatisfaction with municipalities have increased considerably over the past decade. The National Development Plan of 2012 notes that the delivery protests that rocked the country in recent years, partly stem from citizens' frustrations with a state that is unresponsive. The document admits that South Africa has struggled to achieve constructive relations between local, provincial and national government. It is also acknowledged that a lack of clarity about the division of responsibilities together with a reluctance to manage the system has created instability and institutional tension across all three tiers of government. What is also of concern is the lack of leadership in identifying appropriate solutions and the lack of consensus on how this should be resolved (South African Government Information 2012).

The National Development Plan also states that municipalities in particular, are often unable to respond effectively because they do not have sufficient data, or even the required skills to analyse available data. In fact, most municipalities lack an understanding of their indigent

communities. Furthermore, their lack of financial and human capacity to plan for population dynamics is compounded by ineffective intergovernmental coordination on planning and service delivery (South African Government Information 2012; Makhanya 2012, 4).

In view of the above, Makhanya (2012, 4) rightly argues that the proposals in the National Development Plan will come to naught if South Africa does not “get the state of our state right. This calls for courage on the part of our governors. But they must know they do not have a choice. The alternative sends shivers down the spine”. It therefore stands to reason that an abnegation of the proposals of the National Development Plan signals a high measure of political risk for South Africa.

The Security of Property and the Discourse on Nationalisation

Under the heading, the security of private property, Venter (2005, 51-52) specifically focused on the issue of land reform in South Africa. He pointed out that the government had intimated that agricultural land reform was too slow and that the “willing buyer willing seller” principle had not rendered the required success or outcomes. The impression was created that the government could use its power to expropriate land voluntarily. This raised fears in general about the security of private property while the government's commitment to the respect of private property was sometimes in doubt.

Little has changed in the country since Venter first propounded these arguments in the mid-2000s. Moreover, some elements in the ANC alliance started an ideological debate on the nationalisation of the mining industry – something that has been a major political issue at the ANC's national policy conference in July 2012 in Gauteng. In fact, the debate on nationalisation (of the mining industry) took centre stage at the conference (Kgosana, Ngalwa and Matlala 2012, 1). This followed several pronouncements and a formal submission by the ANC Youth League to the Parliamentary Portfolio Committee on Mining that the nationalisation of mines in South Africa should be driven by a state-owned mining company, which should take ownership and control of a minimum of 60 per cent of the existing privately owned mining corporations (ANC Youth League 2011).

The twin issues of agricultural land reform and the nationalisation of the mining industry are critically important in any political risk analysis of present-day South Africa. Generally, many informed opinion makers in South Africa would be in full agreement with the following editorial comment in South Africa's biggest Sunday newspaper, the *Sunday Times*: “The dithering of [ANC] party bosses on an issue [nationalisation] that the ANC began debating in 1992, has already cost South Africa millions of rands in potential investment and potential jobs. Investors are not willing to pour their money into a country and industry where there is so much policy uncertainty” (Sunday Times Editorial Staff 2012: 4).

The ANC's most recent national conference in Mangaung (Bloemfontein) in December 2012, seems, however, to have brought a bit more clarity on these issues. The ANC ditched the concept of "strategic nationalisation" of the mining industry in favour of "strategic state ownership" in the mining sector through equity, using a state-owned mining company as its facilitating vehicle. The ANC also embraced the government's National Development Plan, which is considered by the business community as a positive blueprint aimed at boosting growth and reducing unemployment. In this context, the conference also did not signal anything that points towards antagonism against the business community. In fact, the policy platform of the ANC looks more investor and business friendly than had generally been anticipated ahead of its elective conference in Mangaung, rating agency Moody's Investors Service said after the conference (Isa 2012). However, plans on agricultural land reform are still largely undecided and somewhat uncertain.

Conclusion

It can be argued that little has changed in South Africa since the mid-2000s as far as the broad macro-political risk image of the country is concerned (compare Venter 2005). Serious political risks – such as war, revolution, a coup d'état, hostile neighbours, military involvement in politics and violent racial or ethnic conflict – remain relatively low. Far more crucial in the South African context, is the political risk posed by social and political-economic variables as argued in the discussion above. In fact, social risk in the form of violent service delivery protests have markedly increased since the mid-2000s and must be cited as a factor of the highest concern in any consideration of forces and future events that could negatively influence investor confidence. Another factor spelling high social risk is that of extremely high levels of unemployment, which coincide with low levels of education and unschooled labour in South Africa. Certainly, youth unemployment remains one of South Africa's most acute challenges and this must be factored into in any discussion on South Africa's future political landscape.

Furthermore, a number of other factors also pose significant political risk. These pertain to a lack of solid and visionary political leadership; corruption; inefficient government administration, especially at municipal level; a rigid business environment and inflexible labour policy; and finally, policy uncertainty on the role of the government in the mining industry and agricultural land reform. This being said, indications are that more clarity can be expected in the near future on how the ANC as governing party will approach the mining industry.

The most recent ANC national conference (December 2012) has not given any indication of any anti-business sentiments, but investors are likely to remain "cautious" (see Venter 2005) on investing in South Africa. The ANC government will probably continue to drive down the cataclysmic political risks in the country – as it has done over the last decade – but the question remains whether the state is suitably positioned to carry out government's political intentions.

Against this background opinions among top business leaders vary from perspectives such that “South African politics has always been volatile” (Harris, 2012) to more assertive and concerned voices that “government should get the basic functions of government working” (Cutifani 2012, 5). The latter view is premised on the conviction that for South Africa to become competitive in today's rapidly expanding global environment, much more should be done by government, business and labour to create the right environment for economic growth, foreign investment, thriving businesses, and job creation (see Cutifani, 2012, 5).

In the final instance, the violence associated with recent labour unrest, specifically the events at Marikana and De Doorns, has evoked distinctly negative reactions, although there is no sense of doom and gloom (see Mittner 2012, 23). Based on the above analysis, it seems that South Africa probably remains in the medium risk category. However, Clem Sunter's argument that South Africa is at a tipping point in terms of its future and that the country has a 50:50 chance to continue playing in the “Premier League” (as opposed to the “Second Division”) is certainly worth pondering. The question whether South Africa as Africa's number one economy is poised to move on to the next level of ‘high medium risk’, will in future undoubtedly remain a point of discussion for political analysts and role-players who have an interest in contemporary political risk in South Africa.

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Biographical Note

Theo Neethling is a professor and the head of the Department of Political Studies and Governance at the University of the Free State, South Africa. His most recent book is entitled *Post-Conflict Reconstruction and Development in Africa: Concepts, Role-Players and Practice*, which he has co-edited with Heidi Hudson.

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