

Political environment of south africa



Introduction

South Africa is officially named as Republic of South Africa. The current President of South Africa is Kgalema Motlanthe and the vice president is Baleka Mbete. (Government system 2009) South Africa is a Sub-Saharan country located at the edge of Southern Africa. South Africa's total land areas are 1, 219, 090 square kilometers, which is the 25th largest country in the world ranking. Total population in South Africa is 49, 052, 498. HIV caused 5. 7 million deaths in South Africa. It is 2nd highest in the world ranking. (Central Intelligence Agency. 2010) This Report is written based on research material found from internet and library. Types of sources include e-journals, e-books, World Wide Web documents and online report.

Generally, the purpose of this report is to show the current small business environment in South Africa. Discussion on political environment, legal environment, economics environment, sociocultural environment, technological and infrastructural environment will be included in this report. Recommendations on how a small business take advantages on good environment and how a business prevent risk in bad environment will given in the recommendations part. Lastly, a conclusion will made based on the research on the small business environment of South Africa.

General environment

Political environment

Political Structure

South Africa is a democratic republic country with parliamentary system of government. Similar with Australia, South Africa is a Federal state formed by a Federal government and nine self governing Provinces. Therefore, foreign <https://assignbuster.com/political-environment-of-south-africa/>

investor from Commonwealth countries will be familiar with the government system in South Africa. The election is carried out every five years to appoint bicameral parliaments. On the other hand, the National Assembly will vote for the President. Based on the Constitution, the maximum serving period of a President is ten years (country report 2005)

Political risks

The evolution of government from apartheid to democracy since 1994 had brought sustainable political stability to South Africa (DATAMONITOR 2008). However, there are some political risks in South Africa. Due to the domination of African National Congress (ANC) in the election, other political parties are remains weak. The domination of a political party will affect the transparency and effectiveness in handling business policies. On the other hand, corruption of South Africa's government is another concern of political risk. Report has shown the Corruption perceptions index (CPI) in South Africa is 4.4 out of 10 in 2003. Corruption problems in South Africa considered serious since the index is lower than 5 out of 10 (Risk management 2004).

Legal environment

Legal structure

The legal system in South Africa is based on Roman-Dutch Law and its own constitution is formed in 1996 and officially enforced in 1997 (Country report 07). However, some English law was adopted to fill the needs in modern commercial law. The judicial system in South Africa is centralized and independent, the courts and judges system are similar with Australia which have Constitutional and Supreme courts (DATAMONITOR 2008).

Regulations and restrictions

South Africa's government is receiving foreign investors with open arms. Excessive prior approvals, prohibition, and discouragement will not be imposed to foreign investor as long their revenues are come from non-illegal activities. Constitutional rules are imposed on a foreign business. A foreign investor can hold a company shares up to 75% in South Africa. However, the investment in banking, insurance, and broadcasting industry are limited to foreign investors. Furthermore, tax regulations are imposed on foreign investment too. A maximum of 40% individual income tax, corporate tax between 0 to 28%, 10% of withholding tax and capital tax are imposed on foreign investor based on case on case basis. Therefore, high tax burden appeared as one of considerations to invest in South Africa. Labor laws are made by government to ensure the labor's rights are protected. The working hours, leave, and overtime of an employees are supervised by these laws. Overall, The transparency and freedom of business in South Africa is relatively high. This is proven by the achievement in the 2007 World Bank's "Overall Trade Restrictiveness Index". With 95 competitors, South Africa had achieved the rank of 12th (DATAMONITOR 2008). The well established legal systems in South Africa enable a business to gain sufficient rights. Copy rights, patents, trademarks, property rights and intellectual property right are protecting the interests of a business (business environment 2008).

Economic Environment

Economic key indicators

South Africa's economy is the largest among African countries. Well development in financial, natural resources, legal, communication, transport

and energy systems. These Infrastructure and resources enable South Africa to achieve the standard as middle income country. The main driving forces of foreign exchange are tourism and mineral exporting sectors. (ECONOMIC OVERVIEW 2010) Generally, South Africa's economy was escaped from the shadow of world economic crisis. Although the annual real GDP growth rate in 2009 is -1.8% (South Africa Commercial Banking Report Q2 2010), a positive 0.9% of quarter on quarter real GDP growth rate recorded in 3rd quarter of the year 2009 had indicated the recession was ended. The recovering trend of South Africa's economy will be enhanced by the hosting of FIFA World Cup in the year 2010. A real GDP growth rate of 2.6% in 2010 and 3.2% in 2011 were expected by South Africans (South Africa Business Forecast Report 2010). Moreover, GDP per capita of South Africa in 2009 is \$5812 US Dollar and expected to increase in the years after 2009 (South Africa Commercial Banking Report Q2 2010). South Africa has achieved rank 45 in GCI (Global Competitiveness Index) in 2009. It is slightly better than India which is a strong developing country ranked at 51 in GCI (Examining Africa's Competitiveness 2009). Exchange rate of ZAR (South Africa's currency) to US Dollar was facing increasing trend from 2008 to 2009, it increase from 8.25ZAR/1USD to 8.36ZAR/1USD. However, the exchange rate in 2010 and 2011 was expected to decrease to 7.60ZAR/1USD (Chapter 4: Special report 2010). Inflation rate and interest rate are the main factor of competitiveness in a country. Both of interest rate and inflation rate in South Africa was facing a decreasing trend from 2007 to 2009. Inflation rate from GDP price deflator was decreased from 9.3% (2007) to 6.8% (2009). At the same time, interest rate was decreased from 11% (2007) to 9.1% (2009).

Nevertheless, the inflation and interest rate in South Africa are still considered high. (Money, Prices and Interest rates 2010).

Poverty and unemployment

Unemployment rate record in 2009 is high as 25% which means many South Africans are jobless and their purchasing power is low (South Africa Commercial Banking Report Q2 2010). Privatization is the main factor of high unemployment. Excessive and low performance employees are being laid off by those privatized companies. High unemployment rate in South Africa is causing unsustainable poverty problems. South Africans have lost approximately 19% of their total income commencing year 1995. High income of richest peoples and low income of poorest peoples have worsening the income inequality gap and poverty problems. Poverty and unemployment are then causing sufferers to emigrate. This has created serious brain drain problems when the talented workers are moving to other countries with better welfare (DATAMONITOR 2008)

Sociocultural environment

Races, religions, and languages

South Africans are basically categorized into four types of ethnics groups. Which are black African (79%), White (9.6%), colored (8.9%), and Indian/Asian (2.5%). There are 11 different languages spoken by South Africans. IsiZulu is the most widely spoken language in South Africa. 23.8% of South Africans spoke IsiZulu, following by IsiXhosa (17.6%), Afrikaans (13.3%), Sepedi (9.4%), English (8.2%), Setswana (8.2%), Sesotho (7.9%), Xitsonga (4.4%), other (7.2%). According to the report, most of the South Africans are Christians. Although the society of South Africa is formed by

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multi skin colors, religions, and speaking languages, the harmony between peoples is still retained. Average literacy rate of South Africans are 86.4%. With labor's quality point of view, high literacy rate provide high quality employees (The World Factbook 2010).

Hofstede cultural dimensions

The Hofstede five dimensions table below shows South African's power distance are between the rates of 40-50. The equality of peoples from different status is moderate. Rate of individualism is 60 which mean South Africans are more to individualism than collectivism. Therefore, work in a team does not fit them best. Uncertainty avoidance index of South Africa is rated between 40 and 50. This indicated the South Africans have a moderate tolerance when dealing with uncertainty. Lastly, Masculinity index is rated at 60 which means they are more emphasizes on achievement in terms of materialistic. Generally, South Africa's Hofstede Cultural Dimensions are quite similar with world average Hofstede's dimensions. It indicated the cultures in South Africa are amiable and foreigners are able to fit in their culture easily (Geert Hofstede Cultural Dimensions 2010).

Technological and infrastructural environment

Communications and medias

In modern days, broadband connection became one of the basic requirements in a business progress. South Africa had equipped their country's internet services with high speed broadband connection. Whereas, the cost of high speed broadband is almost four times higher than normal bundle data services (Broadband on the rise 2006). Furthermore, commercial radio station, M-net television broadcaster, satellite broadcasting, and free-
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to-air television are the other types of communication Medias available in South Africa. These infrastructures have made the advertising and propagation works easier (Communications 2009).

Transportation

The well developed transportation system is an essential requirement to maximize the business efficiency in terms of resources allocating. According to the annual report, South Africa has 22, 298km of total railways, 362, 099km of highways, 728 airports and 7 ports and harbors in 7 different cities. With all of these transportation infrastructures, resources are allowed to allocate to targeted location without any problems. However, it is not as perfect as the transportation infrastructures in developed countries. The development of transportation infrastructures in South Africa is still on the half way (Investment overview 2010)