

# Political and economic environment of south africa



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South Africa is a multiparty parliamentary democracy in which constitutional power is shared between the president and the Parliament. The Parliament includes two parts, the National Assembly and the National Council of Provinces. They are in charge for creating the laws of and taking care of bills involving monetary issues. The third governmental division is an autonomous judiciary. The Constitutional Court is the highest court for interpreting and deciding constitutional issues, while the Supreme Court of Appeal is the highest court for nonconstitutional matters (Bureau of African Affairs, 2010).

South Africa achieved independence from Britain on 31 May, 1910 and the official Independence Day is 27th April. In 1994, there was first all-race multiparty election making it the formal end of apartheid. In 2009, the ruling African National Congress (ANC) won its third consecutive election and Jacob Zuma was elected President.

There has been a concern that the dominance of the ANC has made South Africa a de-facto one-party state with other parties, such as Democratic Alliance (DA) and Congress of the People (COPE) being in the opposition. President Zuma's rise to power has been divisive. Zuma's reputation has been stained by several issues, such as accusations for corruption and sexual abuse, which provoked his discharge as Deputy President in 2005. There are still issues concerning Zuma which include his setback in declaring his commercial interests and extra-marital affairs.

Zuma was brought to power with a support of two ruling partners – powerful Congress of South African Trade Unions (COSATU) and the South African Communist Party. The Zuma administration has mainly remained to the

previous administration's economic policies. Nevertheless, there are still ideological tensions within the ANC and among the ANC and its ruling partners. South Africa continues to have broad economic and political relations with the regional and international community that will likely offer a degree of stability. South Africa's successful hosting of the World Cup of soccer in June-July was viewed as a coming-out party of sorts for South Africa on the international stage (Whelan, n. d.).

Based on the recent political situation in South Africa there are certain challenges ahead. There have been notable transformations in the country after the apartheid period such as programs to develop necessary social services, wide spreading the right to use improved chances in education and business. However, the process of transformation of South Africa is long and requires the persistent dedication of the leaders and people.

One of the main contributors in the reconciliation process is The Truth and Reconciliation Commission (TRC) that is taking care of abuses of human rights during apartheid era, provide victims with compensation and gives amnesty to those who committed politically motivated crimes. TRC often conflicts with political, economic and cultural interests of different groups of South Africa's people. The challenge for the government to balance these confrontations and manage agreements on the basic questions will remain a critical challenge (Bureau of African Affairs, 2010).

Even though South African economy is in many areas highly developed, the nature of apartheid caused the country's international isolation until the 1990s that has left major disadvantages. The economy is in a course of

change as the government attempts to manage the inequities of apartheid, encourage growth, and create employment opportunities. Nowadays business in the country is becoming more integrated internationally, and foreign investments have increased. However, the economic inconsistency among population groups is projected to continue for many years, making it a main concern for the government.

## **Economic Environment**

The economy of South Africa has two sides: one is developed and the other one with most basic infrastructure. Country's economy has many characteristics of the economies in developing countries, such as separation of labor among formal and informal sectors, irregular distribution of wealth and income.

South African government has demonstrated its dedication to open markets, privatization, and a favorable investment climate through the release of a Growth, Employment and Redistribution (GEAR) strategy that took place in the period from 1996 to 2000. The results were with various successes. First of all, it achieved greater financial discipline and macroeconomic stability; however it failed to deliver these achievements in main areas.

Unemployment continued to rise even after continuing programs of black empowerment. Country's wealth still remains unequally distributed among racial lines. Second, several budgetary reforms that aimed to provide better reporting, auditing and accountability, and changes in monetary policy in terms of inflation targeting, allowed South Africa to have transparency and predictability that are highly-praised. Third, the process of trade liberalization has progressed significantly since the early 1990s, which

together with implementation of World Trade Organization (WTO) obligations and initiation of the Doha Development Round shows South Africa's recognition of free market values.

Today, economic recovery is on track. The fiscal position remains challenging, the forecasts for 2011 include sizable but manageable deficit. The government expects these shortfalls to gradually narrow due to a rebound in growth and slowdown in expenditure growth. International investors remain cautious of emerging markets due to events in Europe (Greece) and South Africa could fall out of favor should perceptions shift. So far, unemployment remains stuck at 25%, with employment gains only being registered in the public sector. The recovery is expected to remain on course and private sector demand should gradually gain force, thus replacing government as a growth driver. A stronger recovery will likely only take hold in 2012.

Regardless of the various optimistic economic achievements since 1994, South Africa has had difficulties in attracting significant foreign direct investment. However, the situation started to change, in 2005 South Africa had the largest single FDI when Barclays acquired a majority share in local bank Absa Group Limited. In 2006, the deals between the British Vodafone and South Africa's Vodacom were formed. Later on, in 2010, two multibillion dollar deals took place, when HSBC acquired Nedbank and Walmart acquired Shoprite Holdings (Wikipedia, 2010). For international and domestic investors, there are several investment opportunities existing in South Africa since the country is the world leader in several specialized manufacturing

areas and it has fast growing service industry, tourism construction that will significant foreign investment over the next few years.

On May 15, 2004, South Africa was honored a chance to hold the 2010 FIFA World Cup.

That was the biggest event that was ever held in Africa. South Africa made a big effort on improving the infrastructure and security in the country. The economic impact of the World Cup is great for the country, since it will increase the GDP, create numerous jobs and attract foreign investments.

South Africa's longer-term prospects center on the government's ability to manage a country through a transitional period. Economic policy is generally business friendly, while FDI is welcomed. Success depends on the capability of the government to address the power issue.

## **Social Environment**

Today there are 49, 109, 107 people living in the country. More or less half of the population lives in urban areas, and many live in rural areas with insufficient housing. In both rural and urban centers, a lot of people do not have access to water supply and sanitation, electricity, and other services. Due to the fact that population is more mobile today and there are more employment opportunities in the urban areas, the immigration among the citizens is growing rapidly. Poverty is the highest among the Black population, reaching over 60%. There have been several reforms in the education sector and now all inhabitants have access to education, however still around 13, 6% of population are illiterate.

Even though majority of people have access to health services, public establishments are usually lacking necessary resources and not capable to meet demands. South Africa has one of the highest rates of HIV occurrence in the world. Overall, 18, 1% of the population is infected by this disease. Every day there are 1, 000 new infections occurred, and around 350, 000 people die annually from AIDS-related diseases. A 2007-2011 strategic plan offered the arrangement for a widespread reaction to HIV and AIDS, counting a national compress of antiretroviral therapy. Overall, 30% of infected people are currently on antiretroviral therapy.

From the time when apartheid was abolished, political violence in South Africa has went down noticeably, however today violent crime is still a major concern in South Africa and these acts are increasingly economically rather than racially motivated. Therefore, there are many robberies targeting upper-class citizens. In 2008, due to the national dissatisfaction with high unemployment rates and illegal immigration, people from other African countries who came to urban cities of South Africa were often targeted by local citizens. In April 2010, Eugene Terre'Blanche, a disreputable pro-Apartheid person, was killed by two of his black employees. This event raised concerns of inter-racial violence, however it did not happen.

While South African society is experiencing a rapid change, some prejudice against women and people infected by HIV/AIDS continues (Bureau of African Affairs, 2010).

## **Exchange rate policy**

South Africa has a strong financial structure with a great and active stock exchange that ranks 17th in the world in terms of total market capitalization.

South Africa has a floating exchange rate system where the rand exchange rate is mainly established by the foreign exchange market forces under circumstances that exchange control is still applied, however only over inhabitants in terms of capital movements. The government has taken steps to slowly lessen lasting foreign exchange controls (Merwe, n. d.). Private citizens can do a single investment of up to 2, 000, 000 rand in offshore accounts. During 2007, the percentage of South African shareholdings for FDI outside Africa was decreased from 50% to 25%. This change allows South African companies to hold strategic international partnerships. Moreover, companies that are involved in international business were allowed to use a single Customer Foreign Currency (CFC) account for all intercontinental dealings. Johannesburg Securities Exchange (JSE) was also given a permission to set up a rand currency futures market that aims to expand South Africa's financial markets and raise liquidity in the local foreign exchange market.

The Reserve Bank no longer recommends fixed rates for buying and selling dollars in bank transactions with the public. Nevertheless, South African Reserve Bank can play a part in this market by buying or selling other currencies. Today, in general the policy is to allow market forces to determine the exchange rate. However, in latest years, however, the Bank has been building up foreign exchange reserves by purchasing foreign exchange from the market. Activities like raising the demand for foreign

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exchange can manipulate the exchange rate. In order to interfere successfully in the foreign exchange market, the Reserve Bank must keep an eye on the market all the time.