

Pest analysis of south africa economics essay



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The tables above show a brief idea of the total political and legal environment. These figures overall represent a very positive and very stable country to move and invest to.

1. 1 Stability of the Country

South Africa has one of the most stable governments in the African continent and is recognized as one of the emerging markets to invest in compared to the economies of western world (Mail & Gurdian, 2011)

The new president Jacob ZUMA (since 9 May 2009) has economic policies that are very attractive to investors with very little restrictions.

The country was chosen to host the Football world cup of 2010 which indicates that the international community has an eye on South Africa, which is a potential opportunity in the making. (SA2010, 2011)

As stated by business week, (2011) “ South Africa has been formally asked to join the BRIC group of major emerging markets, comprising Brazil, Russia, India and China, bolstering its position as Africa’s champion” which means that its economy is growing and has a stable position as its other partnering BRIC countries.

1. 2 Trade Regulations and tariffs

The government has announced attractive tax incentives also offers a grant of up to 30% as stated in (trade investsa, 2011).

Food safety control legislation is very thoroughly enforced in South Africa, this not only assures quality in retailers products also assures customers of

the service provider, thereby will indirectly create goodwill for retailers who can keep up with the standards (doh, 2002)

They are a member of the World Trade Organization (WTO) and follow the Harmonized System (HS) of import classification. (CIA WFB, 2011)

1. 3 Legal enforcement for contract enforcement

The new consumer protection act which will be implemented fully by March 31 2011 will increase the rules and regulation regarding contracts. (PWC, 2011)

The procedure of issuing work visa's is simplified if the company has registered under the companies act of South Africa (South African High Commission in India, 2011)

The government formed new constitutional courts, a human rights commission and a judicial service commission. (country studies, 2011)

1. 4 Taxation

Taxation policies in South Africa is medium range, due to the rising development projects been carried out by the government to uplift literacy and start new business opportunities around the country to reduce unemployment. The following image shows the income tax charged on companies.

Source - SARS, 2011

South Africa has an industrial tax of 28% (reduced from 29% in 2007) also a 10% STC (reduced from 12.5% in 2007 (low tax, 2011)). This shows there is an encouragement by the government to open new businesses.

But taxes for non-resident companies are 33% and will not be charged on STC (low tax, 2011).

VAT stands at 14% which is charged only on companies making more than R1 million per annum (SARS, 2011).

2. Economical environment

All statistics below are for 2010, except for the exchange rate which is for 2011.

Description

Statistics

GDP

4.4%

GDP (purchasing power parity)

524.341 billion

Unemployment rate

24.00%

Disposable income

2. 7%

Inflation rate

3. 7 %

Interest Rate

5. 50%

Current exchange rate between INR and ZAR

(Values from March 03, 2011)

0. 15

Source: index mundi, trading economics & times live, 2011

2. 1 Inflation rate

Image Source: Trading economics, 2011

From the year 2007 to early 2009 the inflation has had an increasing trend but after that there seems to a gradual reduction in inflation. This was mainly due to the inflation targeting policies used by the government of SA (house price South Africa, 2011)

The interest rates of South Africa might spike if the inflation is not controlled lesser than 3% to 6% due to high food and crude oil prices (earth times, 2011).

As this is a recovery stage that South Africa is going through inflation is expected to keep low (earth times, 2011).

If we look at the inflation rates of other BRIC countries we see that South Africa has a relative low inflation rate.

South African December 2010 inflation: 3.5%.

China's official inflation rate currently is 5.1% in December 2010, up from 1.5% at the beginning of 2010

India's inflation is about 7.5%, but is expected to rise further

Brazilian inflation was 5.91%

Russian inflation is currently running at 8.8%.

(House price South Africa, 2011)

2.2 Unemployment

Source: economist, 2011

Unemployment is high in South Africa because mainly the disparity in income also the negative effect between inflation and unemployment which can be shown in a Phillips curve. This curve which is very important has not been applied to the South African Policy making (reserve bank, 2011)

Unemployment rates for the past 5 years

Source: index mundi, 2011

The high growth rate of the economy is tarnished by the increasing unemployment rate which currently is nearing the 25% mark (IMF, 2011).

President Jacob Zuma in his address to the nation stated that 2011 is the “Year of Job Creation” (economist, 2011)

Steps to increase competition in the financial sector so that capital can be acquired for lower cost by companies (IMF, 2011)

2. 3 Discretionary Income

After 5 years of negative figures in 2009 SA achieved a positive figure of 2.7% (times live, 2011).

Disposable income has increased in 2010, by 5.1% (all Africa, 2011)

Food inflation reduced the discretionary income of SA, this led to a contraction in consumption of 4.5% in early 2009. Food retailers' sales were down by 5.9% (Economic matters. 2011). But the months leading to 2011 the economy began to pick up and as the economy recovered so did the consumption.

Indian consumer goods makers are rushing to acquire assets in Africa as the estimated consumer spending is supposed to double to 1.4 trillion by 2020, also rising discretionary income by 50% (Business world, 2011).

3. Social Environment

Population (mid 2010)

49.99 million

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Number of Provinces

9

Recognized Educational levels

General Education and Training

Further Education and Training

Higher Education and Training

MID-YEAR POPULATION ESTIMATES 2010

Type

Africa

White

Coloured

Indian/ Asian

Number

39, 682, 600

4, 584, 700

4, 424, 100

1, 299, 900

Source: South Africa, 2011

Religions

Religion

Total

Christianity

35, 750, 641

Islam

654, 064

Hinduism

551, 668

Judaism

75, 549

Other

283, 815

No Religion

6, 767, 165

Undetermined

610, 974

Total

44, 819, 774

Source: South Africa, 2011

3. 1 Education

Statistics Source: Index Mundi, 2011

As stated in South Africa, (2011) “ Spending on education remains high on South Africa’s priorities, with Finance Minister Pravin Gordhan allocating more than R189-billion to the sector”. Because with education comes growth with this in mind the government of South Africa is investing large number of capital to the sector.

Literacy as a whole in South Africa can be shown as follows,

Total population: 86. 4%

Male: 87%

Female: 85. 7% (2003 EST.) Source: CIA, 2011

The government has urge schools to follow policies implemented by the government such as the three “ Ts” which stands for Teachers, Textbooks and Time (South Africa, 2011)

3. 2 Demographics

Statistics Source: Index Mundi, 2011

The dream of Nelson Mandela of building a rainbow nation is a slow but sure objective that the government is trying to achieve (BBC, 2011).

South Africa is a rich nation full of different cultures, religions and races interwoven together (South Africa, 2011).

With Indian culture beginning in 1860, and establishing there colonies. The Indian population of nearly 900, 000 the demand for Indian food has spread to other cultures as well (South Africa, 2011).

The high HIV infection rate could be a negative point, the statistics are given as follows,

HIV/AIDS - adult prevalence rate

17. 8% (2009 est.)

country comparison to the world: 4

HIV/AIDS - people living with HIV/AIDS

5. 6 million (2009 est.)

country comparison to the world: 2

HIV/AIDS - deaths

310, 000 (2009 est.)

country comparison to the world: 1

Source: CIA, 2011

3. 3 Spending Habits and Attitudes

60% of consumers in South Africa are changing their spending habits according to a study carried out by UCT (high beam, 2011).

It's a known fact that many South African adults don't plan ahead financially, In other words do not keep any savings (Cyber prop, 2011)

Food and drinks are moderately priced in South Africa, But eating out is expensive (Expat Forum, 2011)

Some Prices of basic essentials are given below,

Housing

4500R

Food

4000R

Utilities

400R

Leisure

1250R

Transport

800R

Insurance

600R

Clothing

1200R

Housing

4500R

Source: Expat Forum, 2011

Culture and Attitudes

As stated by SA-venues, (2011) “ The population of South Africa is one of the most complex and diverse in the world”.