South Africa

An Assessment of Modern Political Risks

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Executive Summary

This report is prepared for PetroChina by Junchen Dai, Ryan Hunt, and Taylor Seal from LAIS 450 Political Risk Assessment class, Colorado School of Mines. The report focuses on potential political, economic, environmental, social and security risks that PetroChina may face operating in South Africa.

Government Risks

Government Structure: Low-Medium  Transparency: Low  Corruption: Medium-High
Rule of Law: Medium  Government Effectiveness: Medium  International Tension: Medium

The young democracy in South Africa performs well in ratings of economic freedom, individual freedom, and legal freedom. The African National Congress led by President Zuma dominates the political circle in South Africa, and it maintains a relatively stable government structure. However, corruption is a serious problem in South Africa. Foreign investors may face unfavorable interactions with the government. Rule of law and government effectiveness are also impeded by corruption.

Economic Risks

Inflation: Medium  FDI: Low  Currency: Medium-High  Tax: Low-Medium

Most foreign companies are welcome in South Africa due to the open market. Foreign direct investment has remained at a high level in the past ten years. There is no additional restriction on mining and extraction companies. A few major oil and gas companies like Shell and Chevron have successfully started operations in South Africa. And there is no bias towards foreign companies, local and foreign companies have similar corporate tax rates. However, the South African currency faces a high risk of depreciation.

Natural Resource and Environmental Risks

Climate Change: Medium  Pollution: Low  Energy: Medium-High

South Africa is famous for abundant natural resources and beautiful natural views. Air and water pollution level is low. However, due to its unique geological location, South Africa has a relatively high risk of experiencing impacts climate change, such as tropical cyclones. Poor electrical infrastructure and reliance on imported crude oil may cause some risks of instability in energy supply.

Security Risks

Domestic War and Conflict: Medium-High, Crime: High

South Africa's levels of internal violence and domestic violence are severe. This is primarily due to a negative perception of crisis response and a weak rule of law in South Africa. Crime is at an all-time high in South Africa, and anti-Chinese sentiments appear to be on the rise.
Social

Overall High

Due to complex social problems, South Africa possesses high levels of social risk. HIV is a serious issue which has negative impacts on the entire society of South Africa. Abuse of Illicit drugs increases the level of organized criminal and narcotics activity. And a dangerously wide wealth gap between different ethnic groups creates severely unbalanced economic development and ethnic conflicts.
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Methodology

The following is the methodology for determining how severe political risks are throughout the report. The definition of a risk is the probability that an event will turn into a measurable loss. This means that from our risk matrix, the aggregate risk is a combination of the likelihood of an event occurring and the impact that this event has on the political stability of the government with relation to the effect that it will have on a company seeking foreign invest. Thus, a low risk is an event that can be analyzed but not worried about and anything above a medium-high risk should be thoroughly analyzed and be mitigated. Below is the decision matrix as well as the explanation of each ranked risk.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low = 1</td>
<td>A low risk is determined to be an event or problem that ranges from all possiblites and should be considered negligible due to the little impact the event has.</td>
</tr>
<tr>
<td>Low Medium =2</td>
<td>A low-medium risk is determined to be an event or problem that ranges from all possibilities and however the impact are notable.</td>
</tr>
<tr>
<td>Medium = 3</td>
<td>A medium risk is determined to be an event or problem that should be conscious of by the company due to wide range of possibilities</td>
</tr>
<tr>
<td>Medium High = 4</td>
<td>A medium-high risk is determined to be an event or problem that ranges from unlikely to very likely and depends primarily on how devistating the impact is.</td>
</tr>
<tr>
<td>High = 5</td>
<td>A high risk is determined to be an event or problem that is very likely to happen that will create problems with the government and the company invoved in the state.</td>
</tr>
</tbody>
</table>

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1 Bremmer & Keat, 4
State Overview

The nation of South Africa has a long history of political conflict and democratic struggles. Nonetheless, the country is championed by pro-democracy forces around the world for being one of the few former African colonial states with a successful transition to democracy.

South Africa was officially colonized by the British Empire in the early 19th century as a British settlement. However, conflict with native ethnic groups, including the Xhosa, Zulu, and Sotho, halted the expansion of British territory. In addition, a pair of wars with the Boers (original Dutch, German, and French settlers) dramatically weakened the power of the British Empire and generated anti-British sentiments in the colony. Consequentially, South Africa was granted independence just eight years later and a white-supremacist political party was placed in power. Soon after, extreme segregation, or apartheid, was institutionalized in almost every aspect of society, effectively suppressing the civil rights of the native majority.

Following the end of World War II, the country received significant pressure internally and externally to abolish apartheid. A number of economic sanctions were formed against the country and boycotts were organized against South African businesses. Within the country, several revolutionary groups, including the African National Congress, began to engage in urban sabotage and guerilla warfare to gain international attention for the domestic injustice they were experiencing. It was not until 1993 that bilateral political discussions were held with any opposing political parties. Nelson Mandela, an icon for the African National Congress, was famously released from prison after a 27-year sentence. Mandela conducted political discussions with the standing president and negotiated a political transition to democracy. In 1994, the first democratic elections were held in the country, with the African National Congress winning by a landslide. Nelson Mandela was elected by the Parliament as the first President, and he served two four-year terms before retiring.

Economically, South Africa exhibits many of the characteristics of a mixed economy. Domestic airlines, electricity generation companies, and transportation districts are fully state-controlled. Under the current administration, the government has continued to increase the role of state-owned enterprises. The South African economy is well balanced between a large number of industries, including manufacturing, finance, services, retail, and construction. The primary sectors of the economy are summarized in Figure 1.

![Figure 1. Breakdown of South African GDP.](image-url)
Politically, South Africa is divided into nine independent provinces. Each province elects a regional government to handle issues such as health care, education, public housing, and transportation. Nationally, a parliamentary democracy oversees the provinces and controls foreign affairs, social institutions and monetary and fiscal policy. Both governments elect officials through party-list proportional representation. The African National Congress (ANC) party, popularized and formerly led by Nelson Mandela, has dominated these elections since the end of apartheid in 1994.

Geographically, South Africa is unique because it does not recognize a single official political capital city. Cape Town, on the southern tip of the country, is the legislative capital, while Bloemfontein and Pretoria in the north are the judicial and executive capitals, respectively. Much of the central landscape of the country is located on the tall African Central Plateau ranging from 3,300 to 6,900 feet above sea level. The Limpopo and Orange rivers drain the plateau, to the surrounding oceans, although neither river is completely contained within the political boundaries of the nation. Rough mountain ranges and escarpments isolate the Central Plateau from the surrounding lowlands. These lowlands and surrounding coastal areas are densely populated and temperate in climate, although they are poorly suited for maritime trade due to a lack in natural inlets and harbors.

The nation is resident to a number of different ethnic groups, although about 80% of the nation self-identifies in the ethnic superclass of Black/African. These ethnic groups are reflected in the eleven official languages recognized by the national government. Zulu, Xhosa, and Afrikaans are
the most popular languages, although English is the official language of commerce and trade and many other languages are spoken regionally around the nation.

Figure 3. Geographic distribution of languages in South Africa, which roughly corresponds to rural ethnic distributions.
1. Government Risks

1.1. Regime

The current regime in South Africa is classified as a young, parliamentary democracy consisting of a federal government and nine independent provinces. The South African government underwent a remarkable pro-democracy shift in 1994 by re-enfranchising indigenous Africans, effectively ending fifty years of apartheid. However, challenges in the democratic system have placed the government at odds with some formal characteristics of democracy.

Most simply, democracy can be thought of by using Abraham Lincoln’s explanation as a “government for the people.” This definition naturally requires certain conditions to be satisfied for a government to qualify as a democracy, including universal suffrage, citizens’ eligibility for public office, and the presence of free and fair elections. However, the formal concept of democracy is somewhat broad in scope because it entails a variety of differing political structures and organizations. Conventionally, democracy is divided into a two-dimensional spectrum describing the division of executive power and the contrast between federal and unitary power. The structure of nearly all democracies around the world today can be classified accurately with this system. Furthermore, the formal concept of democracy places performance requirements on democracies, in addition to structural ones. Democracies are generally treated with some skepticism until they reach a certain age, generally twenty years, in case they turn out to be ephemeral political entities. Democracies are also generally required to pass a “turnover” test by successfully transferring power between political parties twice following the formation of the democracy. Even though South Africa falls much closer to the democratic end of the spectrum, the concept of authoritarian rule will also be presented as a point of contrast.

Authoritarian rule represents a spectrum of political ideologies that is even broader than democracy. Authoritarian rule is the collection of all non-democratic forms of rule which do not hold free and fair periodic elections to select political leaders. Although authoritarian regimes may come in many forms, most authoritarian rulers face two main political challenges: the struggle to enforce contracts and agreements between key political actors and the struggle to share power with allies who support them. As a result, the operations of an authoritarian regime are generally marked by repression, violence, and secrecy, in an attempt to handle these challenges. In general, companies operating within an authoritarian regime face much higher political risks than when operating within corresponding democratic nations.

For the most part, the current political structure in South Africa fits the academic model of democracy. The South African electoral process champions universal suffrage and enforces fair and accurate election results. Nevertheless, South Africa’s democracy is barely twenty years of age and has never turned power over to an opposition political party. Even though other parties continue to win seats in parliament, a smooth transition of power has never been observed. Also, concerns about the level of corruption in
government and the supposed political affiliation of the Independent Electoral Commission continue to surface. The following political indicators shown in Table 1 help to characterize the performance of the democratic system.

Table 1. Freedom Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Score</th>
<th>Best</th>
<th>Worst</th>
<th>Standardized (0-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polity Database</td>
<td>9.0</td>
<td>10</td>
<td>-10</td>
<td>4.75</td>
</tr>
<tr>
<td>Freedom Rating</td>
<td>2.0</td>
<td>1.0</td>
<td>7.0</td>
<td>4.16</td>
</tr>
<tr>
<td>Freedom Rating – Aggregate</td>
<td>79</td>
<td>100</td>
<td>0</td>
<td>3.95</td>
</tr>
<tr>
<td>Freedom of the Press</td>
<td>36</td>
<td>0</td>
<td>100</td>
<td>3.20</td>
</tr>
<tr>
<td>Freedom of the Legal Environment</td>
<td>9</td>
<td>0</td>
<td>100</td>
<td>4.55</td>
</tr>
<tr>
<td>Freedom of the Political Environment</td>
<td>17</td>
<td>0</td>
<td>40</td>
<td>2.88</td>
</tr>
<tr>
<td>Freedom of the Economic Environment</td>
<td>10</td>
<td>0</td>
<td>30</td>
<td>3.33</td>
</tr>
<tr>
<td>Civil Liberties</td>
<td>46</td>
<td>60</td>
<td>0</td>
<td>3.83</td>
</tr>
<tr>
<td>Political Rights</td>
<td>33</td>
<td>40</td>
<td>0</td>
<td>4.13</td>
</tr>
<tr>
<td>Democracy Rating</td>
<td>7.56</td>
<td>10</td>
<td>0</td>
<td>3.78</td>
</tr>
<tr>
<td>Civil Liberties</td>
<td>7.94</td>
<td>10</td>
<td>0</td>
<td>3.97</td>
</tr>
</tbody>
</table>

Evidently, the democracy in South Africa struggles with a deficit in certain freedoms, including the freedom of the press, various civil liberties, and political rights. Still, South Africa ranks well against other nations globally. Considering the relative inexperience of the South African democracy combined with the challenging geographic location of the country, the democracy is performing very well. The democracy scored well in individual freedoms, economic freedom, and legal freedom. Although more specific political risks of South Africa will be explored in subsequent sections, the South African democracy itself provides a low risk to foreign investors. **Risk: Low**

1.2. Structure

The government in South Africa is a federal democracy that is loosely based on a parliamentary model that is found in many Commonwealth nations. The current president, Jacob Zuma, is a member of the African National Congress (ANC) party and was elected by Parliament in 2009. The cabinet is composed of other members of Parliament, predominantly from the ANC party, appointed by the president. The president is also responsible for appointing judges to the higher courts in the National Judiciary of South Africa.

The African National Congress is the dominant political party in South Africa, winning 62.2% of the popular vote in the most recent election. The ANC has held a parliamentary majority since the instantiation of the democracy in 1994 and was formerly responsible for leading the fight against apartheid and white minority rule. Nelson Mandela was elected the first President of South Africa following his release from prison and pursued a number of social democratic policies intended as restitution against years of apartheid.
The prominent opposition political party in South Africa is the Democratic Alliance, which is backed by predominantly white and minority voters. The DA increased its share of the popular vote to 22.2% in the most recent popular election. The party looks to improve economic conditions within the state with centrist or left-centrist political policies and limit the involvement of the government in its regulatory efforts. The election data shown in Figure 4 clarifies the balance of power between the political parties.

![Figure 4: South African Election Results 1999-2014.](image)

The African National Congress has been losing popular support for the past 10 years in favor of the Democratic Alliance (DA) and other factions such as the Economic Freedom Fighters (EFF). This raises a slight risk of a rough transition of power if the Democratic Alliance party is able to generate a majority in the Parliament since such a transition has never occurred. However, some of the characteristics of the South African democracy, including proportional representation, federal division of power, and coalition cabinets, actually are indicative of a system that is not nearly as sensitive to change as a strict two-party majoritarian democracy might be. The South African system of government has many similarities to a consensus democracy, and as a result is highly resilient to shifts in power between political parties. Thus, the risk posed to foreign investors by a change in party control is minimal, despite the fact that a political transition has never occurred in South Africa. **Risk: Low-Medium**

### 1.3. Transparency

The South African government is championed for its transparency on public and private issues. The national constitution contains some of the strongest transparency legislation in the world inside its Bill of Rights. The legislation protects basic political rights, the right of access to information, the right to fair administrative action, and the right of access to legal courts, among others. Furthermore, South Africa received a score of 92 out of a possible 100 from Transparency International in the Open Budget Index. A foreign investor would have little issue gathering sufficient data from the government when planning or preparing to begin commercial operations within the country. **Risk:** Low
1.4. Corruption

Corruption, on the other hand, is a serious impediment to economic activity in South Africa. A number of reports have discovered a dramatic rise in the level of public sector corruption within the past 15 years.\textsuperscript{31} Transparency International computed a Corruption Perception Index of 44 of a possible 100, confirming that serious problems exist.\textsuperscript{32} And there is little hope that conditions will improve soon; just earlier in 2016 a major political scandal surfaced involving the standing president, Jacob Zuma.\textsuperscript{33}

Much of the corruption that has been observed within the country has originated at the top, by politicians within the African National Congress, who regularly commit economic fraud to steal money from the government.\textsuperscript{34} A number of theories place blame on decades of apartheid or greedy foreign investors. And to some extent, a propensity towards rent-seeking behavior from the era of discrimination has converted itself into the corruption that is readily apparent today.\textsuperscript{35} However, the reality is that corruption has grown independently and rapidly within the ANC since the days of Nelson Mandela.\textsuperscript{36}

Within a society with high levels of corruption, a foreign investor faces a serious risk of complex and uncooperative interactions with the government, but this risk may be mitigated successfully to some extent through bribes and strategic employment. A company should be prepared to distribute capital or resources in the form of bribes to public sector officials in exchange for the provision of government services. Additionally, a company may choose to employ a former government official with an understanding of the inner workings of the public sector in order to reduce the complexity of government interaction. Overall, though, corruption is a serious risk that has the potential to derail productive economic activity. \textbf{Risk: Medium-High}

1.5. Rule of Law

High levels of corruption within the South African government have bled into the weakness of the rule of law within the country. According to the World Justice Project’s Rule of Law Index from 2016, South Africa received a score of 0.59 of a possible 1.00 based on an aggregated eight areas of consideration.\textsuperscript{37} Many of the low scores are tied directly to corruption within the public sector, including a number scores below 0.45, such as “Effective Investigations”, “No Unreasonable Delay”, “No Corruption within the Legislation”, and “Effective Correctional System”.\textsuperscript{38}

From the perspective of a foreign investor, many of the risks due to rule of law follow the same pattern as those enumerated for corruption. A company must be able to deal with an inefficient, bribable regulatory agency and a sluggish civil justice system in the course of normal business operations. As a result, similar mitigational efforts, such as bribery and strategic employment, may again be helpful in improving operational efficiency. \textbf{Risk: Medium}
1.6. Government Effectiveness

The effectiveness of the government in South Africa is again limited by rampant corruption within the public sector, especially the corruption at the very highest levels of government. According to the World Bank, the government received a percentile score of 64.9 in an approximate standard normal distribution of government effectiveness. The relative ineffectiveness of the government is less important for economic activity as it is for social objectives, but it still poses risks to a company operating within the county. Foreign investors must be aware of the relative weakness of South Africa’s political authority compared with Western governments and be prepared to settle civil and criminal issues more independently than in the West. **Risk: Medium**

1.7. International Political Tension

Apart from traditional government risks, a multinational foreign investor must be aware of the international political consequences of a catastrophic economic or social event. For instance, anti-Chinese sentiments in South Africa have been on the rise since the end of apartheid, at which point the Chinese minority, along with the already established white minority, developed into somewhat of a market-dominant minority. Such a group is exposed to a number of security risks, ranging all the way from hatred to genocide. Besides the risk posed to human life and property damage, such an event has the potential to be interpreted as a highly offensive action from the perspective of an international diplomat, especially when the foreign investor is a nationalized company. Thus, with an appropriate initial trigger, one act of violence has the potential to degrade diplomatic relations between two nations to the point that foreign investment is no longer
operationally feasible. PetroChina must keep in mind that their implicit representation of the Chinese government paints a metaphorical target on the back of the company, and conversely, any aggravation against the company may trigger a retaliation of the Chinese government. PetroChina is in many ways stuck between competing forces which may erupt into violence in the presence of a sufficient trigger. Risk: Medium

4 Lijphart, Patterns of Democracy, 47.
5 Lijphart, Patterns of Democracy, 3
6 Lijphart, Patterns of Democracy, 50
7 Lijphart, Patterns of Democracy, 6
11 “South Africa, Freedom House”
12 “South Africa, Freedom House”
14 “South Africa, Freedom House”
15 “South Africa, Freedom House”
16 “South Africa, Freedom House”
17 “South Africa, Freedom House”
18 “South Africa, Freedom House”
19 “South Africa, Freedom House”
20 “South Africa, Freedom House”
21 “South Africa, Freedom House”
23 “Democracy Index 2015”
24 “South Africa, EIU”
25 “South Africa, EIU”
26 “South Africa, EIU”
27 Lijphart, Patterns of Democracy, 33-40
29 “Transparency in South Africa”
32 “Country Profiles: South Africa” (Transparency International)
34 “Why is Corruption Getting Worse in South Africa?”
38 “Rule of Law Index 2016”
40 Chua, World on Fire, 1.
2. Economic Risks

This chapter focuses on the economic risks of South Africa. The analyses of economic risk include financial development, currency stability, trade regime, tax laws, and nationalization. Macroeconomic indicators will indicate the level of economic risk.

2.1. Macroeconomic Indicators

2.1.1. GDP, GDP per capita

GDP of South Africa has decreased since 2011 due to weak investment and slow industry development. But South Africa is still the second largest economy body in Africa and one of the largest minerals producers in the world. The mining industry is the engine of South Africa’s economic development. In 2016, South Africa’s GDP is 35th in the world.\(^4\) As a member of BRICS, South Africa, one of the biggest developing countries in the world, is a leader in regional economics. **Risk: Medium**

![GDP of South Africa from 2005-2015.\(^4\)](image)

GDP per capita also has decreased since 2011. Besides the slow growth of national economy, domestic issues are responsible for the decreasing GDP per capita in South Africa. In 2016, the unemployment rate is 25.1\(^{\%}\),\(^4\) which is a dangerously high rate of this country’s development. High unemployment reveals the inactive economic development and low domestic demand in South Africa. **Risk: Medium**
2.1.2. Inflation Rate

The inflation rate in South Africa is about 2% higher than world average rate. Relatively high inflation rate can distort purchasing power of a company, shrinking the revenue that companies have obtained. After 2010, the inflation rate in South Africa become more stabilized due to more aggressive fiscal policy. **Risk: Medium**

2.1.3. FDI

South Africa has maintained a high level of foreign direct investment (FDI) since 2005. FDI is about 20% of South Africa’s GDP, higher than many other developing countries in Africa. Open market and abundant natural resources keep attracting foreign investment. Stable and high FDI level in the past ten years indicates that South Africa has provided foreign investors with a favorable investing environment. During the Beijing Summit of the Forum on China-African Cooperation in November 2006, Chinese president Hu Jintao announced that Chinese government would provide a five billion dollar China-Africa Development Fund to support Chinese FDI in Africa. In addition, China would
also offer three billion dollars’ concessional loan. Companies in South Africa could benefit from the fund and loan provided by the Chinese government. **Risk:** *Low*

![FDI As Percentage of GDP](image)

*Figure 8: FDI as a percentage of GDP.*

### 2.2. Currency

Rand is the official currency of South Africa, published by South Africa Reserve Bank in 1961 to replace the old British pound. Rand is an unstable currency in the past ten years. The Rand reached a five-year low of R11.56 against US dollar on October 22, 2008. Due to the Federal loosened monetary policy; the Rand appreciated for three years until 2011. However, problems in the euro zone, emerging markets and subsequent decline in commodity prices pushed the rand to historical lows against the US dollar and other major currencies. Compared to the United States, EU, and China, South Africa is a small economy entity and is unable to impact the global economy. But changes in the global economy could dramatically change the South African domestic economy and currency value. So, the South Africa Rand has a high risk of depreciation since it could be easily influenced by external factors. Companies in South Africa that only use the Rand as a trading currency could be placed at significant risk. **Risk:** *Medium-High*

### 2.3. Trade Regime

#### 2.3.1. Tariff

Compared to developed countries, South Africa is a highly protected economy entity. South Africa’s average duty rate is twice as high as New Zealand’s. In fact, South Africa has a relatively open market; it is not an over-protected developing country. The average tariff of South Africa is 27.5 percent, which places South Africa just above the median in a sample of 32 developing countries based on the World Bank comparable data. Actually, South Africa's average tariff on consumer goods, intermediate goods, and capital goods, is close to or
below the median. Relatively low tariff rates are favorable to international companies in South Africa. **Risk: Low-Medium**

### 2.3.2. Economic Freedom

South Africa scores 61.9 in economic freedom in 2016, which is slightly better than the world average 60.7, ranking 80th in the world. South Africa’s transition to a more open economic system has only been marginally successful. State-owned enterprises operate in several critical sectors of the economy. Non-transparent laws continue to impede private investments. And foreign investment may face some additional restrictions. Obtaining necessary licenses takes more than two months. All these factors are reducing the economic freedom and efficiency of South Africa. **Risk: Medium**

### 2.3.3. Political Factors

The liberalization of the trade regime in South Africa highly depends on political policies. In the 1980s, South Africa had a very restrictive trade regime. It had the most complex and widest range of tariff rates in the developing world. However, in 1994, the new government decided to reduce and simplify the tariff structure. Later, South Africa joined the Southern African Customs Union—comprising South Africa, Botswana, Lesotho, Namibia, and Swaziland—which provides for tariff-free trade inside the union and allows for the extension of any preferential tariff granted to any one of the members to the other members. And South Africa joined the Southern African Development Community (SADC) in 1994 and later a trade protocol, which created of a free-trade zone over, in 1996. The government played an important role in changing the trade regime. Trading policies made by the government would determine the type of trade regime of South Africa.

Overall, trading barriers are reducing after 1994 when the new government was put into power. International companies now have access to an open market in South Africa. **Risk: Low-Medium**

### 2.4. Views Towards MNCs

South Africa has a relatively open market and has few biases against MNCs. Local and foreign companies are treated equally except foreign businesses, which are restricted in their local borrowings. Foreign companies do not need permission to invest in South African shares, bond, or other portfolio investment. The basic corporate tax rate of 28% applies to the worldwide income of South African companies. Branches of foreign companies are taxed on their South African-source income at the same rate of 28%. All mining and exploration companies must pay a royalty to the government on their mining rights without any exception. MNCs have a favorable investing environment in South Africa. **Risk: Low**
50 South Africa. http://www.heritage.org/index/country/southafrica#rule-of-law
51 Ketil Hviding. Liberalizing trade and capital transaction. IMF.2006
3. Natural Resource and Environmental Risks

3.1. Climate Change

With the majority of South Africa oil reserves laying outside the coastline of South Africa, changes in the climate may have extreme impacts on human society as well as the marine society as well. Large cyclonic storms that generate wind and pressure anomalies causing coastal flooding and severe wave action could very well have a huge impact on the South Africa community. With having a majority of offshore drilling rigs in South Africa, the impact that one of these storms could be catastrophic. One storm, if extreme enough, would have the ability to take out one or several of these drilling rigs, resulting in loss of lives from the operators of these drilling rigs and a severe impact on the marine life off the coast of South Africa. Relating back to the BP oil spill, it took several days to mitigate the leak as well as several weeks to clean up only a portion of the spill, changing the dynamic of the ecosystem. If this were to occur in South Africa, what would happen to the societies fishing agriculture, how long would it take marine life to come back to the coast, and would marine life even come back in our lifetime? We just don’t know, but this would make a major risk especially with the increase of climate change.

The tropical cyclone season in our part of the world is from November to April, with the peak frequency in January and February. However, with the majority of the cyclonic storms coming from the Mozambique Channel the western part of South Africa is typically not affected, making this less of a risk for the Orange Basin. The last known major storm that created damage to South Africa was Eline in 2000. With the last one before Eline being in 1984, this would suggest that the frequency of the storms is very minimal. Risk: Medium

3.2. Levels of Air and Water Pollution

South Africa's particle pollution (PM) has decreased since 2000 with a mean of 36.2 micrograms per cubic meter to a PM 2.5 of 28.9 micrograms per cubic meter. There is minimal pollution on the western portion of South Africa and more pollution in the most populated areas near Johannesburg and is mainly due to the mining operations in the area.

Agriculture uses approximately 60% of the water supply in South Africa. With a lot of agriculture in South Africa, the fertilizers and sewage pose most of the risk in pollution of water. When too much fertilizer is washed from farmlands into a river then the water will also become polluted. Human sewage or cattle excrement that is untreated also causes water pollution in the same way as fertilizers do. This is the main risk in water pollution and air pollution, but does not directly affect operations offshore. Risk: Low
3.3. **Access to Key Non-Energy Resources**

3.3.1. **Water for Industrial Use**

Mining & Industrial uses approximately 10.5% of the water supply.\(^5\) According to the Department of Water and Environmental Affairs, the demand for water will outstrip supply in Gauteng by 2013 and in the whole of South Africa by 2025.\(^6\) With decreasing supply of the fresh water throughout South Africa, the water supply is a major risk; however, from a company standpoint the risk of use of water is very vast in offshore drilling and creates a moderate risk between the two. **Risk: Medium**

3.4. **Energy**

3.4.1. **Electrification**

In 2012 approximately 85.4% of South Africa had access to electricity.\(^7\) This is good considering that in 2000 only 66.1% of the population had access to electricity.\(^8\) However, the problem with the electrification is South Africa isn’t the access to it but the electrical infrastructure. The problem occurs with the abolishment of apartheid in 1994. After the abolishment more native South Africans needed access to power and the infrastructure wasn’t set up to handle adding such a large population. The infrastructure was set up to get power to the White Africans rather than to all Africans. Thus with the need of more power, the infrastructure can’t handle the needed amount of power generation. In 2015 they private company Eskom had 99 scheduled outages. This poses concern for a consistent power to an offshore oil rig.

With the government's knowledge of the poor electrical infrastructure, they are trying to make attempts to improve the grid. They are going to move away from their main source of power of coal and move more into the nuclear side of power generation. South Africa aims to build six new nuclear power plants by 2030 at an estimated cost of between 400 billion to 1 trillion Rand ($29B-$73B US).\(^9\) Despite frequent discussion of nuclear power potential for Africa, South Africa has the only two operating power reactors on the continent.\(^10\) Making South Africa more likely to move towards nuclear power, however, with coal being cheaper, it is unsure if this will be beneficial to the government and if there should be another source of power generation. South Africa’s Department of Energy recently concluded the second round of bids for 19 RE independent power project for 1,044 MW of power using a variety of technologies, including wind, small hydro, solar photovoltaic, and concentrated solar power.\(^11\) With all of the change to the power infrastructure, this leaves concern for when there will be readily available power, how will the power be generated, if there room for natural gas. **Risk: Medium-High**

3.4.2. **Reliance on Foreign Energy Sources & Stability**
South Africa’s largest import is crude oil, mainly from Saudi Arabia, Nigeria, and Angola (Figure 9). The total cost of the crude oil imports is $16.2 billion, where South Africa only exports $87.8 million, which demonstrates how much reliance South Africa has on the imports of crude oil.

![Figure 9: Import of Crude Oil to South Africa by Country.](image)

The risk comes into question with the security of Saudi Arabia, Nigeria, and Angola. Concerning Saudi Arabia's wealth mainly coming from crude oil and distributing the government's wealth to the people, their announcement to hold back production leaves them vulnerable to hold back from exporting oil. With Nigeria and Angola having trouble with terrorist activity, oil refineries and pipelines are at risk for takeovers and distribution on the black market. There has also been a concern for oil shipping vessels being taken over between Nigeria and Angola making South Africa a possible target since there are little major pipelines set up on the western side of South Africa and they are still using shipping vessels to transport the crude oil. This results in a risk to the government and companies involved in the western part of South Africa. There needs to be more infrastructure in order to protect and to distribute more crude oil. **Risk: Medium-High**

### 3.5. Regulations

All regulations taken place through the oil and gas sector have to go through the Petroleum Agency of South Africa. The Petroleum Agency of South Africa is set up into three major groups the technical compliance, licensing and legal compliance, and an environmental compliance group. In general, it performs an advisory and administrative role which includes receiving, evaluating and making recommendations to the Minister
on applications for petroleum rights and permits and monitoring compliance with permits and rights.\textsuperscript{65} Thus there must be coordination between the company and the Petroleum Agency of South Africa, following their oil and gas laws. Where to obtain a license a company must submit a reconnaissance permit, technical cooperation permit, exploration right or production right. Furthermore, the agency holds licensing rounds to foreign investment, which brings competition between oil and gas companies.

Giving an overview of the permitting involved, the reconnaissance permit, allows the holder to carry out any operation for or in connection with the search of petroleum by geological, geophysical, and photogeological surveys, including any remote sensing technique but does not include exploration operations, such as drilling of boreholes.\textsuperscript{66} The technical cooperation permit, allows the holder to do a desktop study, acquire copies of pre-existing seismic survey data from other sources including the Agency etc., but does not include the right of access to the surface of the area thereby precluding any exploration activities.\textsuperscript{67} The exploration permit, allows the holder to enter on the surface of the exploration area and conduct exploration operations and conduct any other related activity to define a trap to be tested by drilling, logging.\textsuperscript{68} For a production permit, the company must demonstrate how it will produce and how it intends to share the minimum participating interest of 10% with a historically disadvantaged South African entity in accordance with the Charter for the South African Petroleum and Liquid Fuels Industry.\textsuperscript{69} Though these permits are not expensive the 10% of participation with a disadvantage South African company will pose a risk due to the coordination as well as the risk in doing business with an entity that may or may not be up to par with your company and giving the possibility of making costs greater. \textbf{Risk: Medium-High}

\begin{itemize}
\item \textsuperscript{52} Field et al., 41
\item \textsuperscript{53} South African Weather Service. “Which Cyclones Have Affeted SA in the Last 30 Years?” http://www.weathersa.co.za/learning/weather-questions/48-which-cyclones-have-affected-sa-in-the-last-30-years
\item \textsuperscript{54} The World Bank. “South Africa PM 2.5” http://data.worldbank.org/indicator/EN.ATM.PM25.MC.M3?locations=ZA
\item \textsuperscript{55} Water Wise. “Water Situation in South Africa” http://www.waterwise.co.za/site/water/environment/situation.html
\item \textsuperscript{56} Rand Water. “Water Pollution and Your Health” http://www.randwater.co.za/corporateresponsibility/wwe/pages/waterpollution.aspx
\item \textsuperscript{57} Water Wise. “Water Situation in South Africa” http://www.waterwise.co.za/site/water/environment/situation.html
\item \textsuperscript{58} Rand Water. “Water Pollution and Your Health” http://www.randwater.co.za/corporateresponsibility/wwe/pages/waterpollution.aspx
\item \textsuperscript{59} The World Bank. “South Africa Access to electricity” http://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=ZA
\item \textsuperscript{60} The World Bank. “South Africa Access to electricity” http://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=ZA
\item \textsuperscript{62} Hancock, Kathleen, Sylvia, Gaylord. \textit{Developing World: National Energy Strategies}. The John Curtin Institute of Public Policy: Curtin University. 2009. 217
\item \textsuperscript{63} Hancock, 219
\item \textsuperscript{64} International Comparative Legal Guidelines. “South Africa Oil & Gas Regulation 2016”
\end{itemize}


4. Security Risks

4.1. International Wars

South Africa has fought in many international wars including, World War I, World War II, the Greek Civil War, Mozambican Civil War, South African Border War and since 1998 has been involved in more internal wars rather than international wars. With the increasing amount of internal wars within South Africa, it would be expected that they will focus on the following internal wars and not deploy into international wars. **Risk: Low**

4.2. Domestic Wars & Conflicts

The latest known domestic conflict in South Africa was the Marikana Massacre, where 34 mining workers were killed by police. Police opened fire on a gathering of thousands of machete-armed workers striking for higher wages. With the largest police killing in 30 years has brought back tension between the government and the police. The violence has prompted some people to draw parallels with the country’s days of apartheid rule.

Along with conflict towards the police, another conflict has risen more recently of South Africa leaving the International Criminal court. This came three days after Burundi’s president signed a decree making his country the first to withdraw from the court, which had planned to investigate the political violence that followed the president’s decision in 2015 to pursue a third term. This leaves the question of whether or not the South Africa government is under scrutiny from their corruption scandal and don’t want to face charges from the court system, making it questionable if the government is still going to break international law. **Risk: Medium-High**

4.3. Border Disputes

With South Africa having borders between 6 different countries, border tensions can become high. For about 120 years, Orange River boundary has been the subject of a dispute between South Africa and Namibia. Which originates in Lesotho and crosses westward to create the Namibia and South Africa border. The main conflict comes from what country gets water rights from the river since it is the dividing line between Namibia and South Africa. After the creation of a new South African democratic government in 1994, the new government showed itself to be amenable to a profile of the river which would allow communities on both sides of the river to have access to the water resources in tandem with current international law, which requires that communities of riparian states have access to common water courses; and that this would have conformed to the provisions of Article 1(4) of the Namibian Constitution. Where this would have ended the conflict, it did not and the South African civilians objected, never letting the deal go through, the conflict is still going on today.
Where you find a border is where you will find disputes, especially in countries where borders were set by colonial travelers and not by the natives. Thus if a country boundary were to change, a company would be subject to having to change all operations over to a new country and have the possibility of removal from all operations. This would create a situation that is unlikely to occur and have a significant impact. Risk: Medium

4.4. Security Alliances

South Africa’s oldest security alliance is with one of its bordering countries, Swaziland. In a secret agreement reached between the two countries, Swaziland would receive land concessions in exchange for a supportive policy with regard to the ANC. Along with South Africa's close neighbor Swaziland, it also has a close relationship with its interior country Lesotho. With these states bordering South Africa, they do not pose a risk but more of a necessity for alliance. Risk: Low

4.5. Crime Rates

In 2014 there were 184 violent crimes against civilian according to the Armed Conflict Location & Event Data Project (ACLED). The crimes ranged from people being killed in the streets to bombs being set off at public officials houses. From 2015 to 2016 there was a reported 4.9% increase in murder (18,673), 2.2% increase in common assault (164,958), 14.3% increase in carjacking (14,602), and an increase in robberies at residential areas of 2.7% (20,820). Needless to say the crime rates in South Africa are very high and it is a concern to both the government and Petro China. If the government can’t get crime under control the people are going to be in harm’s way all the time; this including a company such as PetroChina where they will likely be targeted for being wealthy. Risk: High

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70 CNN. “Whats behind South Africa’s Mine Violence”
71 CNN. “Whats behind South Africa’s Mine Violence”
72 New York Times. “ South Africa to Withdraw From International Criminal Court”
73 Olaniran, et al, 1
74 Olaniran, et al, 8
75 DeRouen, 719
5. Social Risks

5.1. Ethnic Conflicts

Black African is the major ethnic group in South Africa, making up 80% of the population. White European immigrants made up 8% of the population. However, there is a great ethnic conflict between the small group of white people and the majority of Black Africans. The Economic factor is one of the major causes of conflict. Due to the racial segregation in last century and uneven development, wealth inequality is huge between white people and Black Africans. Most white people are able to obtain a good education and job opportunities. On the other hand, Black Africans are usually living in communities where lack of social amenities and health care. The development of different ethnic groups is unbalanced. **Risk: Medium**

![Figure 10: Ethnic Groups of South Africa](image)

5.2. Health

South Africa has some serious health problems. The probability of dying between 15 and 60 years per 1000 population is one of the highest countries the world. The male has 44.1% of chance to die between 15 and 60 years old. And female has 32% of chance to die in same age range. Except for criminal factors, there are many health issues contribute to such a high probability of dying. South Africa has more people with HIV than any other country in the world. There are 19.2% of adults were infected with HIV in 2015. In the same year, HIV killed 182,400 people, which was the leading cause of death. In addition, tobacco and alcohol are causing health issues. The smoking rate in South Africa is the highest in the African continent (16.2% in 2014). Alcohol has been found to be a major factor in violence and injuries, including interpersonal violence, domestic violence, sexual assault and road traffic injuries. **Risk: High**

5.3. Illicit Drugs
Drug Abuse remains a growing problem in South Africa with 7.06% of the population abusing illegal drugs. It is the transshipment center for heroin, hashish, and cocaine in Africa. Cocaine and heroin consumption are on the rise. South Africa is also the world's largest market for illicit methaqualone, usually imported illegally from India through various East African countries. In order to supply the increasing domestic demand, there is an increasing number of illegal drug workshops showing up. Company operations may be influenced by not only a health issue with drug addictions, but also increasing level of organized criminal and narcotics activity. **Risk:** Medium-High

5.4. Income Inequality

One percent of the population controls 43% of the wealth in South Africa, and five percent of the population controls 65% of the wealth. This uneven wealth distribution means there is a huge income difference in South Africa. Though South Africa is considered as a middle upper-income country in the world and the richest country in Sub-Saharan region, the main population is still struggling with poverty. The wide wealth gap between the upper class and the rest of people contributes to social conflicts. The hostility to the rich is common in South Africa. Most robbery and kidnappings are aiming at wealthy individuals. Foreign businessmen are usually considered as the rich, so they may become targets for criminals. **Risk:** High

![Figure 11: Distribution of Wealth in South Africa (2015)](image)

The GINI index represents the inequality of income. South Africa’s GINI index has increased over 30% in 15 years and reached 84 in 2016, which is one of the highest in the world. The increasing GINI index also means an increasing unemployment rate and increasing social conflicts. Companies will be facing a worsening economic environment in a country with a rapidly increasing GINI index. Uneven development will trigger a financial crisis eventually. **Risk:** Medium-High
5.5. Refugees

From 2006 to 2012, South Africa received the highest number of asylum seekers of any country in the world. Over 200,000 refugees entered South Africa in 2009. Africa boasts some of the most progressive asylum laws in the world. Instead of being forced into sprawling camps, once migrants apply for asylum, they can live and work anywhere in the country until the state determines whether or not they qualify as a refugee. In other words, refugees are almost the same as citizens. However, South Africa maintains strict restrictions on all forms of legal immigration. This is the reason why an increasing number of people have entered South Africa illegally. A large number of unemployed refugees have no stable income, and they have become a threat to local security. **Risk:** Medium

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82 Elizabeth Iams Wellman, Loren B. Landau. South Africa’s tough lessons on migrant policy. 2015.
Comparative States

In order to add context to the risks identified in this report, five comparison states were chosen as a point of contrast. Each of the comparison states are developing nations which are classified by Freedom House as free or partly-free. Also, each comparison state has a large economy and high GDP but has struggled to join the rank of developed nations despite their economic success. Most struggle with political conflict, corruption, or informal economic activity.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Focus State</th>
<th>Brazil</th>
<th>Nigeria</th>
<th>India</th>
<th>Argentina</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freedom in the World</td>
<td>South Africa</td>
<td>79</td>
<td>Free</td>
<td>81</td>
<td>Free</td>
<td>48</td>
</tr>
<tr>
<td>Strength of Legal Rights Index</td>
<td>(WorldBank, 2015)</td>
<td>5</td>
<td>Weaker</td>
<td>16</td>
<td>Weak</td>
<td>6</td>
</tr>
<tr>
<td>Human Rights Index</td>
<td>(Fund for Peace, 2015)</td>
<td>4.4</td>
<td>Fair</td>
<td>6.1</td>
<td>Good</td>
<td>9.1</td>
</tr>
<tr>
<td>Fragile States Index</td>
<td>(Fund for Peace, 2015)</td>
<td>49.9</td>
<td>Warning</td>
<td>65.3</td>
<td>Warning</td>
<td>103.2</td>
</tr>
<tr>
<td>Magnitude of Political Violence</td>
<td>(Center for Systematic Peace)</td>
<td>1</td>
<td>Low</td>
<td>1</td>
<td>Low</td>
<td>2</td>
</tr>
<tr>
<td>Coups d’Etats (Failed or Succeeded)</td>
<td>(Center for Systematic Peace, 1946-2015)</td>
<td>1</td>
<td>Low</td>
<td>1</td>
<td>Low</td>
<td>12</td>
</tr>
<tr>
<td>Fragility Index 2014</td>
<td>(Center for Systematic Peace, 2014)</td>
<td>8</td>
<td>Medium Fragility</td>
<td>5</td>
<td>Low Fragility</td>
<td>17</td>
</tr>
<tr>
<td>Policy Perception Index (Oil &amp; Gas)</td>
<td>(Fraser Institute)</td>
<td>65.7</td>
<td>Good</td>
<td>65.2</td>
<td>Good</td>
<td>72</td>
</tr>
<tr>
<td>Uneven Development Index</td>
<td>(Fund for Peace, 2015)</td>
<td>7.7</td>
<td>Almost Even</td>
<td>8.3</td>
<td>Even</td>
<td>8.8</td>
</tr>
<tr>
<td>Proportion of Parliamentary Seats Held by Women</td>
<td>(WorldBank, 2015)</td>
<td>42%</td>
<td>Fair</td>
<td>10%</td>
<td>Poor</td>
<td>0%</td>
</tr>
<tr>
<td>Aggregate Score (High Risk=1, Low Risk=5)</td>
<td>3.70</td>
<td>3.70</td>
<td>3.10</td>
<td>3.50</td>
<td>3.10</td>
<td>3.10</td>
</tr>
</tbody>
</table>

Three of the chosen indicators involve the freedoms and rights of individuals within the state: Freedom in the World (from Freedom House), Strength of Legal Rights Index (from World Bank), and Human Rights Index (from Fund for Peace). South Africa received the highest possible classification in the freedom index while receiving a much lower score in the strength of legal rights. Weak legal rights was a risk that was clearly identified in this report, and mitigational efforts were suggested. However, countries such as Nigeria and India provide better legal rights protection than South Africa, but they still perform dramatically worse than developed Western nations. Also, South Africa received a much lower score in the human rights index, in comparison with the selected comparison states. Again, this rating is corroborated by years of apartheid and inequality that has yet to be eliminated from society.

Four of the indicators involve the stability of the current political regime: Fragile States Index (from Fund for Peace), Magnitude of Political Violence (from Center of Systemic Peace), Coups d’Etats (from Center for Systematic Peace), and Fragility Index (from Center for Systematic Peace). Among the fragility indicators, South Africa performed slightly worse than the comparison states, especially Argentina, and received a “medium-risk” rating. However, in the political violence indicators, South Africa performed dramatically better than its peers, receiving “low-risk” ratings. Overall, the political stability indicators suggest that South Africa is as stable, if not more stable, than the identified comparison states.
Two of the indicators involve the level of economic development and regulatory effectiveness in the state: **Oil & Gas Policy Perception Index**⁹⁰ (from Fraser Institute) and **Uneven Development Index**⁹¹ (from Fund for Peace). South Africa scored well in the policy perception index, slightly below Nigeria and Argentina, but very close to the aggregate average of the comparison states. As for the uneven development index, South Africa again performed very similarly to the rest of the comparison states, just slightly below Brazil and Nigeria. In terms of economic development and regulatory effectiveness, the indicators suggest that the fertility of the economic environment in South Africa is competitive with those of the comparison states.

The final indicator, **Proportion of Parliamentary Seats Held by Women**⁹² (from World Bank), describes the effect of the gender gap in government. In this category, South Africa performed far better than the comparison states, distributing 42% of the available seats to women compared with the next best proportion of 12% in India. In this regard, the indicators suggest that South Africa incorporates less gender segregation in the highest levels of government than some of the comparison states.

![Figure 14. Graphical representation of the rankings of the focus state and each of the comparison states.](image-url)
Mitigation Efforts

1. Government Mitigations

The major government-related political risk that directly affects a multinational foreign investor is the issue of corruption. Corruption is a common problem in many developing nations, and the widely accepted mitigation technique is to gain a tactical advantage, through artificial incentives or strategic employment. Providing incentives, especially financial ones, is very effective against bias and delay in a corrupt public sector. Furthermore, strategic employment of legal experts, formal public sector officials, and risk analysis is very helpful in strategizing against the complexities of regulatory agencies or public institutions. However, the public perception of the company may be tarnished dependent on the cultural or societal attitude towards bribery. In a country such as South Africa, or PetroChina’s host nation of China, where corruption is prevalent, bribery is perceived much more positively than in the West. However, shifts in public perception must be carefully monitored over time to avoid what could become a corporate scandal.

2. Economic Mitigations

Using US dollars or other stable currencies as the trading method is a good way for companies to alleviate the inflation and currency risk. As the most popular currency in the world, the US dollar has maintained a relatively stable value for decades and it has less depreciation risk compared to other currencies. The US dollar can also make the international trades become more convenient since companies do not have to worry about the varying of exchange rate among different currencies.

3. Natural Resource Mitigations

The major risks involving the natural resources are electrification and energy stability. With South Africa creating a new infrastructure for the electrical grid powered by clean energy, it would be safe to assume when these new infrastructures are set into place, the risk of electrification stability would be minor. However, with the South African government having set the year of 2030 for the construction of their six new nuclear power plants, it is almost too long to wait. Thus it would be beneficial for PetroChina to help invest in a power plant on the west coast of South Africa. Whether PetroChina can use the regulatory risk of 10% involvement with a South African company for this is unknown; it might be a way to create good relations through this and if convincingly enough may be possible to create a natural gas power plant to help with excess natural gas from production. Furthermore, with the risk of energy security, South Africa is in the need of more crude oil production to cope with their high reliance on imported crude oil. Here PetroChina would be able to work with the government to help make South Africa less dependent on the importation of crude oil and produce as much as they can from the Orange Basin. This may come with some leniency on regulatory regulations.
4. Security Mitigations

The biggest risk in security is the crime rates throughout South Africa. Even after the abolishment of the apartheid, there is still a huge wealth gap that was discussed in the social portion of this report. With a large wealth gap and troubles with the government abusing their power, it puts people in great tension with the people that are there to protect them. Mitigating for the employees that would be in South Africa, the recommendation is to get private security to ensure safe travels throughout South Africa.

5. Social Mitigations

Helping the local communities is an important part of corporation social responsibility. As a powerful corporation, PetroChina can provide more infrastructures in South Africa. For example, medical facilities can offer health care to company employees and local residents; it also can provide health education which teaches people how to avoid HIV and other diseases. PetroChina can also alleviate the social risk by providing equal job opportunities to local residents, helping to reduce the wealth inequality. Thus, PetroChina could earn a good reputation in South African society. And PetroChina will face less social risk in future operations.
Conclusion

Through careful analysis of the political risks associated with the operation of a multinational company in present-day South Africa, a number of dominant risks were identified. A company must be vigilant in assessing the severity of each of these highly important risks and must actively work to mitigate them.

- **Corruption:** High levels of corruption distributed throughout the public sector in South Africa has the potential to derail productive economic activity through preferential biases and administrative delays. A company must work to actively mitigate such a risk by gaining a tactical advantage, either through artificial financial incentives or strategic employment of legal and political experts.

- **Currency:** Significant depreciation in the South African currency, the Rand, has plagued the domestic economy over the last ten years. Political uncertainty and poor economic conditions have reduced investor confidence and softened the demand for the currency. If a company chooses to operate in South Africa, it is important to strive to perform the purchase and sale of all goods and services in terms of a stable currency, such as U.S. Dollars or E.U. Euros instead of the domestic Rand.

- **Energy Security:** The risk of ensuring a stable domestic energy supply is two-fold in South Africa. Much of the existing electrical infrastructure is too outdated to satisfy a growing energy demand across the nation. And internationally, South Africa depends heavily on oil imports from Sub-Saharan Africa and the Middle East, each of which presents stability issues of their own. As a company operating in South Africa, additional investment may be required by the company into energy infrastructure, including oil reserve systems, backup generators, electrical power banks, or alternative electricity generation systems.

- **Crime:** Crime rates in South Africa are dramatically higher than most other nations with a similar level of development, in part due to the weakness of the rule of law and the prevalence of corruption in the country. This risk is exacerbated by growing anti-Chinese sentiments that have risen since the era of apartheid. A company must be prepared for significant security expenditures, including security personnel and infrastructure, in order to reduce the risk of acts of crime against the company.

- **Wealth Inequality:** The Gini index in South Africa is extremely high, and South Africa is ranked in the top five most unequal societies in the world. Furthermore, the wealth gap is continuing to increase, as employment decreases and market-dominant minorities continue to absorb much of the domestic economic gains. In order to mitigate the risk of racial tension, which may follow from wealth inequality, a company must work to provide vocational training and employment opportunities in an outreach effort to unemployed members of society.
By aggregating the specific political risks identified in each section of the report with equal weights, the following composite risk scores were computed. Finally, by combining the composite risk scores, an estimate for the overall risk associated with operations in South Africa was computed.

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Risks</td>
<td>2.33</td>
</tr>
<tr>
<td>Economic Risks</td>
<td>2.44</td>
</tr>
<tr>
<td>Environmental Risks</td>
<td>3.17</td>
</tr>
<tr>
<td>Security Risks</td>
<td>3.25</td>
</tr>
<tr>
<td>Social Risks</td>
<td>4.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.04</strong></td>
</tr>
</tbody>
</table>

As for factors to watch for in the future, a company should be cognizant of the upcoming election in 2019, and be prepared for any policy or ideological shifts that may occur if a major political transition of power does occur. Also, a company should remain aware of the trends of inflation, the current unemployment statistics, and the public perception towards multinational companies and Chinese involvement. A dramatic shift in any of these metrics may signal the end of feasibility of operation for a multinational investor in South Africa. Ultimately, though, with the right mitigation techniques, a company should be able to ensure operational stability for years to come.
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Methodology


Government


Economics and Social


Ketil Hviding. Liberalizing trade and capital transaction. IMF. 2006


Elizabeth Iams Wellman, Loren B. Landau. South Africa’s tough lessons on migrant policy. 2015.
Natural Resources


Security


Comparative States


