Foreign Direct Investment And Political Risks In South Africa And Nigeria:

A Comparative Analysis

By

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DECLARATION

I, Juanita Pekeur, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously, in its entirety or in part, submitted it at any university for a degree.

ABSTRACT

Instability in foreign political and social systems, changing power structures in international relations, and growing demands by host countries for a greater control over the operations of multinational enterprises (MNEs) have all led to the necessity of an improved way in which to determine foreign investment opportunities. Not surprisingly therefore, political risk assessment has become one of the fastest growing fields of study. Being concerned with the identification, analysis, management, and reduction of socio-political risks for foreign investors. The focus of this study is that of political risk analysis and the way in which it impacts on investor perception and consequently determines levels of foreign direct investment received by a particular country.

Numerous definitions for the term "political risk" exist. Consequently, no specific definition is regarded as being completely correct since consensus still needs to be reached. One of the definitions used within this study is that political risk analysis is the analysis of the possibility that factors caused or influenced by governmental political decisions or other unforeseen events in a country will affect business climates in such a way that investors will lose money or not make as much profit as they expected when the initial decision to invest was made. These factors can be of internal (from inside the host country) or external origin, and can pose macro or micro risks. Foreign Direct Investment in brief is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor.

This study is a comparative between South Africa and Nigeria. South Africa and Nigeria share many similarities, they are both resource based, African countries. They are both fairly recent democracies, although some may contest the status of Nigeria as being a democracy. They are also both heterogeneous states, both consisting of various ethnic groups.

Nigeria offers investors a low-cost labour pool, abundant natural resources, and a large domestic market. However, Nigeria suffers from an inadequate and poorly maintained infrastructure, confusing and inconsistent regulations, endemic corruption, and a lack of confidence in the rule of law. Despite all of this, Nigeria alone accounts for a quarter of FDI flows to Africa. In comparison, South Africa's FDI potential has not been fully exploited. This study will discuss the possible reasons why this is the case.

The labour market in both countries and the challenges they face are discussed in depth within this study. Due to the fact that aside from investment, the economic growth within a country is dependent on a variety of factors, the backbone of which is the labour market.

In determining levels of risk within both South Africa and Nigeria, this study made use of a political risk model. Although the intention has been to be as accurate and as thorough as possible, it should be noted that as yet, no generalised systematic method of conducting political risk assessment exists. Results, although extensively substantiated, remains the interpretation of the researcher and as such remains open to debate.

SINOPSIS

Onstabiliteit in buitelandse politieke en sosiale stelsels, veranderende mag strukture in internasionale betrekkinge, en die groeiende behoeftes van gasheer lande om meer beheer uit te oefen oor die funksioneering van buitelandse maatskappye het alles gelei na die noodsaaklikheid van 'n beter manier om buitelandse investering te bepaal. Dus is dit nie verbasend dat politieke risiko analise deesdae een van die vinnigste ontwikkelende onderwerpe is wat bestudeer word nie. Politieke risiko analise is belangrik vir die identifikasie, analise, bestuur en vermindering van sosio-politieke risiko vir buitelandse investering. Hierdie studie fokus op die impak wat politieke risiko analise het met betrekking tot belegger waarneming en hoe dit dan ook moontlik die bedrag van buitelandse investering wat 'n land ontvang, kan bepaal.

Daar is verskeie definisies wat die term "politieke risiko" beskryf en gevolglik moet konsensus nog bereik word oor 'n "korrekte" een. Een van die definisies wat in hierdie studie gebruik word is dat politieke risiko die analise is van die moontlikheid dat sekere faktore wat veroorsaak is of wat beïnvloed is deur die regering se politieke besluite, asook ander onvoorspelbare gebeurtenise in 'n land wat die investerings klimaat so kan beïnvloed dat die buitelandse beleggers moontlik geld kan verloor of miskien nie die verwagte winste behaal wat hulle aanvanklik gereken het, sou behaal nie. Hierdie faktore kan of intern (binne die gasheer land) of ekstern van aard wees en kan dus makro of mikro risiko behels. Direkte buitelandse investering in 'n land is 'n belegging wat 'n lang termyn verhouding insluit en dit reflekteer ook 'n blywende belangstelling en beheer van 'n buitelandse maatskappy in 'n gasheer land in.

Hierdie studie is 'n vergelykende studie tussen Suid-Afrika en Nigerië. Suid-Afrika en Nigerië deel baie ooreenkomste. Beide lande is ryk aan natuurlike bronne en beide is nog “jong” demokratiese lande. Sommige mense stem nie saam dat Nigerië wel aan al die vereistes van 'n demokrasie voldoen nie. Suid-Afrika en Nigerië is ook heterogene state wat uit verskeie etniese groepe bestaan.

Nigerië bied vir die buitelandse belegger billike arbeid, oorvloedige natuurlike bronne, asook 'n groot binnelandse mark. Ten spyte hiervan, moet dit ook in ag geneem word dat Nigerië onder onvoldoende en 'n swak instandhouding van infrastruktuur, wispelturige regulasies, korrupsie en ook 'n swak regsisteem ly. Ten spyte van al hierdie faktore, ontvang Nigerië 'n kwart van alle buitelandse investering in Afrika. Suid-Afrika se buitelandse investerings potensiaal in vergelyking met ander lande moet nog ontwikkel word. Hierdie studie sal die moontlike redes vir Suid Afrika se oneksploiteerbare buitelandse investerings potensiaal bespreek.

Die arbeidsmark en die uitdagings wat gestel word het 'n groot invloed op buitelandse investering. Hierdie studie het ten doel om beide lande se arbeidsmark te bespreek en te vergelyk met betrekking tot buitelandse investering.

Om die moontlike risiko in altwee lande te bepaal, maak hierdie studie gebruik van 'n politieke risiko analise model. Die navorser het gepoog om so deeglik en akkuraat as moontlik te wees. Dit moet ook in ag geneem word dat daar nog geen veralgemeende metode van politieke risiko analise ontwikkel is nie.

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List of Acronyms

AIDS: Acquired Immune Deficiency Syndrome

BERI: Business Environment Risk Index

BI: Business International

BMF: Black Management Forum

COSAS: Congress of South African Students

COSATU: Congress of South African Trade Unions

ECA: Economic Commission For Africa

FDI: Foreign Direct Investment

FEDUSA: The Federation of Unions of South Africa

FTA: Free Trade Agreement

G8 Countries: Britain; Canada; France; Germany; Italy; Japan; Russia; United States

GDP: Gross Domestic Product

GEAR: Growth Employment and Redistribution Plan

GNP: Gross National Product

HIPC: Heavily Indebted Poor Countries

HIV: Human Immunodeficiency Virus

IBRD (1944): International Bank for Reconstruction and Development

IDA: International Development Association

IFC: International Finance Corporation

IMF: International Monetary Fund

IPA: Investment Protection Agreement

LRA: Labour Relations Act

MAP: Millennium Partnership for the African Recovery Programm**MDP:** Manufacturing Development Programme

MERCOSUR: Latin American Trade Bloc (Brazil; Uruguay, Paraguay and Argentina)

MIGA: Multilateral Investment Guarantee Agency

MNE's: Multinational Enterprises

NACTU: National Council of Trade Unions

NAI: New African Initiative

NALEDI: National Labour and Economic Development Institute

NDD: Niger Delta Development Commission

NEPAD: New Partnership for Africa's Development

NLC: Nigeria Labour Congress

NNPC: Nigerian National Petroleum Corporation

NUM: National Union of Mineworkers

NUPENG: National Union of Petroleum and Natural Gas Workers

OAU: Organisation of the African Union

OECD: Organisation for Economic Co-operation and Development

PENGASSAN: Petroleum and Natural Gas Senior Staff of Nigeria

PRA: Political Risk Analysis

PSSI: Political System Stability Index

RDP: Reconstruction and Development Programme

SACU: Southern African Customs Union (South Africa; Botswana; Namibia; Lesotho and Swaziland)

SADC: South African Development Community

SRI: Stanford Research International

SSA: Sub-Saharan Africa

TNCs: Transnational Corporations

UNICEF: United Nations Children's Fund

UPE: Universal Primary Education

WPRF: World Political Risks Forecasts

WTO: World Trade Organisation

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Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter One: Background: Investment in South Africa; Purpose of the Study; Conceptualisation and Methodology

1.1 Introduction

The focus of this study will be that of Foreign Direct Investment and Political Risk in relation to both South Africa and Nigeria, specifically trying to establish why there remains a significant difference between the two phenomenon: in the two countries within this study. South Africa has a population of 43 million people, making it the 24^{th} largest country in the world. Although South Africa covers less than 4% of the African continent and accommodates less than 6% of its population, it has the most populous and most broadly developed economy in Africa. It is also one of the most "open" economies in the world since foreign trade accounts for a much higher share of the gross national product than is the case in many other countries (IDC Research Paper Series, 1997). Also from an economic policy point of view, South Africa would appear to be a viable investment destination. Government is committed to the basic principles of fiscal and monetary discipline. Furthermore, there has been a fundamental shift in the approach to trade and industrial policy from an inward oriented import substitution approach to an outward-oriented export approach.

The South African market is one of the largest unexploited markets in the world. This market is substantial, especially if one considers the South African Development Community (SADC). With a total population of 139 million people and a combined gross national product (GNP) of US $150 billion, as well as Africa, south of the Sahara, with a population of 596 million people and a combined gross national product of US $ 286 billion. With 31% of SADC's and 7% of Sub-Saharan Africa's (SSA) population concentrated in South Africa and with South Africa contributing 78% of SADC's and 41% of the SSA's GNP, the country is the most dominant economy in the region. Having taken all of the above into account, South Africa therefore becomes the logical point of entry for foreign trade and investment in the region (IDC Research Paper Series, 1997: 18).

1.2 Background: Investment In South Africa

Seen as the fact that South Africa has been portrayed as the ideal investment destination from the discussion above, this section will discuss the specific characteristics, which make South Africa so ideal. A direct investment implies a permanent relationship between the investor and the object. The aim of a foreign direct investment according to the International Monetary Fund (IMF) definition is to "acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise (Oxelheim, 1993: 11)".

Investment is a powerful stimulus for increasing competitiveness and achieving higher, more sustainable levels of economic growth. South Africa suffers from a very low savings rate of approximately 16% of GDP, thus substantial amounts of foreign investment capital and more specifically, increased foreign direct investment in export orientated concerns are needed. South Africa has experienced an increase in FDI flows following the constitutional changes in the early 1990s. According to Business Map, inflows of FDI have totalled more than R40 billion since the April 1994 elections. The largest of these inflows have come from the United States, followed by Malaysia, the United Kingdom and Germany. Transport and telecommunications receives the most foreign direct investment, the other popular sectors being chemicals and plastics; energy and oil; financial services; food and beverages; hotel and leisure and gaming; manufacturing; mining and quarrying; motor and components; pharmaceutical and medical and property (Burger, 1999: 25).

In a study undertaken by Stanford Research International (SRI) it was concluded that South Africa's strengths as an investment site are as follows – South Africa has:

i) A good physical infrastructure including six deep-sea harbours, a comprehensive national rail and road network, the most modern telecommunications systems available, and one of the lowest electricity costs in the world

ii) Trainable labour and a functioning industrial relations system

iii) A sophisticated financial sector with well developed capital and credit markets and a strong regional presence

iv) An accessible location, to serve the Southern African, Australian, South American and Eastern markets

v) Significant natural resources

vi) A varied and well organised agricultural sector

vii) Natural assets to support tourism development

viii) A technological base and support institutions (IDC Research Paper Series, 1997: 8).

Despite all of the above, South Africa still lags behind with regard to FDI compared to other, less developed and politically unstable African countries. Further impediments to FDI in South Africa include the continual fluctuations of the rand, the situation in Zimbabwe, the AIDS pandemic as well as high levels of crime. Also related to this, is the South African labour force, more specifically, the lack of a highly skilled labour force, the low productivity rate of the labour force and this ties in with the very prominent role of unionisation in South Africa under the banner of COSATU, which could prove to be a headache for any potential investor.

1.3 South Africa and Nigeria: a Brief Comparison

Having mentioned South Africa's position with regard to FDI in relation with other more unstable African countries, specific focus will be placed on Nigeria. Nigeria has a population of approximately 125 million, which is growing at a rate of 3% per annum. Nigeria also has a huge amount of natural resources, specifically in the oil and gas sectors, being the world's 6^{th} largest producer of oil. Nigeria and South Africa share many similarities, they are both resource based, African countries. They are both fairly recent democracies, South Africa, having been through two democratic elections and Nigeria's recent most successful one in 1999, both of them having to deal with transitional governmental systems. They are also both heterogeneous states, consisting of various ethnic groups, South Africa has arguably managed to enforce some degree of integration, whereas Nigeria continues to suffer from ethnic clashes i.e. conflicts being both ethnically and religiously based. Despite this however, Nigeria continues to attract FDI to a substantial degree, the reasons as to why this is so, will be addressed in this study.

1.4 Purpose of the Study and Research Questions

In investigating the disparity between South Africa and Nigeria with regards to political risk and foreign direct investment, the following questions will be addressed:

1) What can South Africa, as host country do, to encourage FDI?
2) Can anything be achieved by government policies to attract FDI? And if the answer is "yes", what constitutes a successful policy, since sound policies is one necessary precondition for attracting FDI?
3) Comparatively speaking, Nigeria can be regarded as being a high-risk country, yet it still attracts investment. This points to the risk and reward factor which influences investment decision. Thus even though South Africa can not be regarded as being as high a risk country as Nigeria, the rewards, one can assume, cannot be too attractive either. This assumption will be scrutinised in relation with the theory of political risk.
4) Labour unions also seem to have quite a significant impact on an investor's decision to invest or not. South Africa has very prominent and influential labour unions e.g. COSATU, who have the ability to seriously disrupt the economy. In relation to this there is also the lack of highly skilled labour as well as the low productivity of the South African labour force. To what degree do all of the above-mentioned factors impact on FDI decisions?

1.5 Conceptualisation

In this section the main terms under scrutiny will be extensively defined. Since it is first necessary to be completely aware and therefore also be able to completely comprehend what the focus of this study will be. Each of these terms will now be individually discussed.

1.5.1 ***Foreign Direct Investment (FDI)***

The most important way to promote foreign investment is to establish a climate of political stability, economic growth and transparent, consistent economic policies (Cull, 1992: 6). Gareth Elliot states that foreign direct investment is unlike other capital flows as it entails ownership, technology transfers and is seen as a long-term commitment to a country (Elliot, 1999: 1). Thus the difference between foreign direct investment and foreign equity investment is that foreign direct investment does not merely buy a stake in an enterprise but takes a direct interest in management (Helleiner, 1990: 172-190). Also the International Monetary Fund defines foreign direct investment to be when the investor holds 10% or more equity (i.e. share ownership) in the enterprise. Therefore FDI's distinctive feature is control over ownership.

Three interdependent factors influence FDI:

1) The international regulatory framework e.g. the World Bank
2) The preferences of multinational investors
3) Host country policies (Elliot, 1999: 6).

With regard to FDI one also has to distinguish between non-policy and policy factors of the host country with regards to FDI. Non-policy factors would include political stability and natural resources. On the other hand, policy factors would include ownership; foreign exchange controls; technology and intellectual property rights; investment incentives and foreign debt (Elliot, 1999: 6).

The three broad categories of FDI include the following:

1) ***Market Seeking FDI:*** intends to supply goods and services to the Market in the country in which it is located. This type of FDI therefore sustains, develops, protects and creates new markets.

2) ***Cost Oriented FDI:*** is orientated towards providing low cost production facilities for exports to other markets or production facilities in foreign countries.

3) ***Resource Seeking FDI:*** intends to supply raw materials, intermediate goods or final products to foreign markets (Narula, 1996: 14; Dunning, 1994: 35).

Macro-economic policies that developing countries should adopt to promote FDI include fiscal austerity; conservative monetary policies; relaxation of exchange controls i.e. the removal of regulatory obstacles to foreign investment and states should also promote privatisation programmes of state owned enterprises (Narula, 1996: 10).

Generally the conditions for attracting foreign investment include natural resources; stable political regimes; large domestic markets; strong economic growth; sufficient infrastructure and cheap labour. It is however, necessary to elaborate on some of these factors.

Political stability is an important FDI determinant since political instability affects FDI inflows in two ways. Firstly, investors are deterred by historical chronic political instability and secondly, discontinuities in the political and socio-economic system, threatens profitability. Market orientation and outward orientation is a necessary requirement to ensure efficient use of resources and economic growth, thus also ensuring flexibility as well as adaptability to external shocks. The Constitution of the host country should also protect property rights including intellectual property, the freedom to contract and should also ensure that legal obligations remain binding. The regulatory and legal environment should be specific with clear rules. It should rule out arbitrary decisions and "special deals" as well as guarantee equal treatment with nationals. Economic and financial stability should be illustrated by conservative monetary and fiscal policies, low or declining inflation and exchange rate stability. Simplicity, consistency and predictability are also prerequisites with regard to the tax environment of the host country i.e. relatively low corporate tax rates as well as incentives such as tax holidays (Hirsh, 1992: 40).

Furthermore the ability to repatriate profits and capital should be facilitated by no or few exchange controls. The quality of human capital found in the host country is also of extreme importance with specific emphasis being placed on education and training, appropriateness of skills, low labour costs, a work ethic and productivity and harmonious labour relations. A host country should also have a developed infrastructure covering both physical (transport, communications, etc.) and financial facilities (developed financial markets, insurance, legal skills, etc.). Finally, host countries should also adopt attitudes, which encourage foreign investment. Positive attitudes may be illustrated by a minimum of investment prescriptions and a hospitable attitude towards foreign workers (Hirsh, 1992: 40).

Foreign Direct Investment is beneficial to host countries for a number of reasons, namely: due to technological spin-offs, a transfer of knowledge occurs which in turn leads to training and management expertise spin-offs and this benefits local suppliers as well. Both direct and indirect employment is created. Competitions for local companies increase and as a result the host country's international competitiveness also increases (Hirsh, 1992: 35).

Foreign investment is welcomed in South Africa and virtually all business sectors are open to investors. No governmental approval is required and there are almost no restrictions on the form or extent of foreign investment (IDC Research Paper, 1997: 8). The government encourages investment in various ways namely: the abolition of the dual exchange rate system effectively signalled the end of foreign exchange control on foreigners; corporate tax rates have declined from 48% to 35% in recent years; South Africa shares agreements with many countries for the avoidance of double taxation; also, import tariffs are applied to encourage local industrial development (IDC Research Paper, 1997: 8).

Characteristics which further place South Africa in a favourable light with regard to FDI include lower foreign debt ratios; relatively sophisticated consumer, intermediate and capital goods industries; a growing diversification and export orientation and well developed infrastructure (economic, financial and human). As well as South Africa's gateway to sub-equatorial Africa and last but to no account least, South Africa's tourism potential and mineral resource endowment (IDC Research Paper, 1997: 8).

1.5.2 *Political Risk*

Any investment is undertaken with the knowledge that a certain amount of risk is unavoidable, no matter how far ahead one plans or how well one plans. The challenge is therefore to retain as low a risk as possible and, if a low risk cannot be assured, at least to make sure that the rewards or profits outweigh the risks to a certain extent and thereby making the initial risk worth the investor's while. It has been stated that even though Nigeria poses a much higher risk for investors than South Africa does, investors are still keen to invest. From this one may therefore assume that the rewards outweigh the risks. In understanding the full impact of political risk on investment, one first needs to conceptualise the term.

A working definition of political risk analysis encompasses *the analysis of the possibility that factors caused or influenced by governmental political decisions or other unforeseen events in a country will affect business climates in such a way that investors will lose money or not make as much money as they expected when the initial decision to invest was made.* These factors can be of internal (from inside the host country) or external origin, and can pose macro (generic) or micro (specific) risks (Brink, 2002: 54; Bird, 1996: 20).

The term "political risks analysis" can be deconstructed as the sum of the probabilities that specific and / or related agents will induce an unforeseen or undesirable consequence or outcome, and that the intensity of that result might have a negative impact on foreign business. This may be illustrated by huge financial losses, direct physical damage to infrastructure, a decline in profitability, or threats to the safety of operational personnel (Brink, 2002: 54; Bird, 1996: 20).

An illustration of the importance or rather the significant impact that risks have on investors or investments can be seen in the report published by the UK-based consultancy firm Merchant International Group in early 1999. The report estimated that multinational companies lost about US $24 billion during 1998 in their foreign investment activities because of specific emerging market country risks. Based on a sample of 7,500 multinationals, the report claims that underestimating corruption, bureaucratic delays, organised crime and other non-conventional risks on average erode expected returns on FDI by 8 to 10 percent. The report also estimates that 84% of operations initiated over the last three years in emerging markets did not meet financial targets, and that 26% of these projects were unsuccessful (Sader, 2000: 32). This knowledge does not bode very well for host governments, since unsatisfied investors usually mean no or very little investment.

Before embarking on any investment, potential investors have to evaluate certain factors in order to ascertain whether or not an investment would be worthwhile. Insufficient coordination and insufficient expertise are two such factors. Lack of coordination tends to pose a particular problem in the relationship between central government and state, provincial or municipal authorities. Conflicting signals from the various authorities may therefore mean unnecessary delays for the potential investor. Most governments in the developing world also tend to lack the institutional expertise necessary to implement private infrastructure projects. The result being detrimental repercussions for the project implementation process and the availability of infrastructure projects for private investment (Sader, 2000: 32-75).

Corruption is another risk factor, usually under the guise of "political interference". It is an unwritten rule that investors know that they need to have influential "business partners", if they hope to gain a project. Corruption creeps in, in that the negotiated deal is not to the benefit of the country as a whole, but to that of a few well-connected individuals. An unclear market entry condition is another problem potential investors face. This is due to the lack of clarity in the rules governing their entry and operation in a particular sector. A related problem is whether or not market entry arrangements and promises made by previous governments will be honoured by their successors. Since infrastructure projects are long-term investments and thus bound to endure through several different political leaderships, a potential lack of political commitment is one of the greatest concerns for any investor (Sader, 2000: 32-75).

The lack of an adequate legal framework is a very relevant risk since a country's laws often pose the greatest challenge to investors, with the result that potential investors often do not find it profitable to invest. Protests and legal challenges spell delays and additional costs for investors, and can possibly lead to the cancellation of projects after lengthy preparations, therefore the incorporation of all sectors as a mechanism of insurance against such delays should not be underestimated (Sader, 2000: 32-75).

Having conceptualised the term "political risk" one can deduce that it is a very real factor that any serious investor has to consider and as far as possible try and minimise, the success of the investment being determined by his ability or inability to do so. Governments, in their wish to become attractive investment sites, should also take serious note of these risks and strive towards eliminating or at least reducing them, thus ensuring that investors glance at them with a more favourable and interested eye. It has been illustrated that even though some countries may seem to be the epitome of high risk, they still enjoy considerable investment, Nigeria being a case in point. This occurs, however, when the rewards outweigh the risks. This phenomenon will also be addressed in this study.

1.5.3 *Theory-Building in Political Risk*

Simon (1984: 124), states that the power of a good theory lies in its ability to explain various situations in different contexts. An incremental aspect of any theory is the identification of the key actors and determining how their interactions can affect the formation of political risk. Most theories regarding political risk have focused essentially on the host government as the major actor and the MNE as the primary target.

One theory is based on the notion that issues such as national interest, national sovereignty, and national identity are the motivating factors behind host government restrictions on foreign business activity. Another theory regards frustration as the key determinant of expropriations, with the host government using the MNE as a scapegoat for the country's problems. A third theory links type of government with a predilection for radical political change, with newly independent states viewed as the ones most likely to experience such change, while democratic systems are perceived to be least likely (Simon, 1984: 125).

Brewer (1981: 5) argues that political risk assessment tends to focus on expropriations, exchange controls, and government instability. He further contends that these are based on a narrow notion of political risk and that they are not necessarily the most important types of risk. Since amongst others, risk may also include uncertainty about future tariffs, non-tariff barriers, taxes, labour relations, etc. The problem therefore comes in that political risk very often becomes a "catchall term" i.e. referring to miscellaneous risks that have not been defined any other way.

This leads Brewer (1981: 5) to conclude that current political risk analysis methods are deficient in three ways.

Firstly, they are too narrowly focused on expropriations, exchange controls, and government instability in the developing countries. Secondly, their methods of information collection and analysis take the form of two extremes i.e. too impressionistic and intuitive, or too mechanistic and formalised. A third shortcoming is that the integration of political risk assessments into capital budgeting analyses leans towards being too simplistic (Brewer, 1981: 5). Having taken all of the above into account one may therefore arrive at the conclusion that foreign direct investment decisions are frequently based on political risk assessments that are both conceptually and methodologically restricted (Brewer, 1981: 5).

1.5.4 ***Country Risk***

Krayenbuel (1985: 3), defines country risk as being "*the possibility that a sovereign state or sovereign borrowers of a particular country may be unable or unwilling, and other borrowers unable, to fulfil their obligations towards a foreign lender and / or investor for reasons beyond the usual risks which arise in relation to all lending and investments.*" It should also be noted that country risk consists of both political and transfer risk. These two terms will be explicated below.

It should be noted that cross-border transactions always involve a foreign currency risk. It can be a foreign currency risk for the borrower only, for the lender only, or for both. Within the context of the discussion of country risk, the foreign currency risk that is being referred to is that of the borrower. This risk may manifest itself in two ways. One risk is that of parity adjustments. This means that the borrower has to pay a substantially different amount in local currency than was due when he contracted his obligation. The other risk is that at the time of payment, the borrower cannot remit the foreign currency because the authorities of his country have introduced corresponding foreign currency remittance regulations i.e. relating to the borrower's liability in foreign currencies. The above examples of origins of country risk, illustrate how the investor may encounter a form of country risk which stems from the economic policies of the country in which he chooses to invest in (Krayenbuel, 1985: 12; Andrews, 1995: 26-27).

A contributing factor of country risk includes the difficulty of dialogue between the investor and the country in which he chooses to invest and this factor may be exacerbated by distance, cultural problems and language problems. Related to this is the fact that cross-border transactions entail a higher legal risk because the laws of more than one country are involved (Krayenbuel, 1985: 12; Andrews, 1995: 26-27).

It has also been illustrated that country risk may manifest itself in three interdependent ways. At the lowest level country risk may only result in a delay in the payment of interest. This is already an indicator that the investor should exercise some form of caution since a delay in payment may be the first sign of future difficulties for the country in question. This delay in payment aggravates country risk in that it may lead to a continued inability of a country to honour its debts. Leading on from this the worst-case scenario regarding country risk is where a country repudiates its debts. This occurs when the country refuses to honour its debts on the grounds that it no longer accepts them. Not many countries resort to this option since it inherently means complete isolation from the international and economic communities (Krayenbuel, 1985: 14).

1.5.5 ***Political Risk and Political Instability***

As discussed above, Country Risk consists of both political and transfer risk. According to Krayenbuel (1985: 3), political risk is the risk that investors face when that country, in which they invest, restricts the repatriation of their investment. Transfer risk is a related factor in that the country invested in may impose restrictions on remittances of capital, dividends, etc. to investors as part of its economic policy (Krayenbuel, 1985: 3).

Political risk is usually associated with political turmoil and revolution. Embargo or boycott measures instituted for whatever reason can mean a substantial change in the foreign currency reserve position of a country. In relation to this, labour unrest and nationalisation tie in with political risk and consequently then also country risk thereby increasing the overall risk for an investor (Krayenbuel, 1985: 12).

Political risk is generally equated with political instability and has for the most part been analysed in the same vein as that of political instability. Sethi and Luther (1986: 58) however, argue that political risk as it affects business investment decisions, cannot be equated simply with political instability such as a change in government.

Furthermore, political instability has different connotations in different socio-cultural frameworks. The conclusion that they arrive at is that any measure of political risk, based on some index of political instability would lead to erroneous findings and consequently would have very little, if any, practical value (Sethi, 1986: 58).

Kobrin (1978: 113) states that most managers rank political instability and / or political risk as one of the most important factors in decisions on foreign direct investment. He emphasises however, that political instability, depending on how it is defined, is a distinct, yet related, occurrence to that of political risk. This distinction between the two concepts is further illustrated by stating that political instability is a characteristic of the environment, while political risk is a characteristic of the firm. Therefore leading to the conclusion that investors should only be interested in political instability to the extent of its impact on the investment (Kobrin, 1978: 114).

Howard (1993: 69) substantiates Kobrin's argument. Emphatically stating that political instability is not political risk, does not automatically create political risk, and certainly is not the only source of political risk. Agreeing also however, that political instability has the potential to create events that are of the type to have an effect on business in general and foreign direct investments in particular. It is for this reason therefore that a study of instability may provide useful information for political risk analysis (Howard, 1993: 69). The impact of political instability as an indicator of political risk is further debatable by two conclusions. First it has to be noted that instability is a culturally rather than universally specific occurrence. Related to this is the fact that events may only be regarded as being irregular and destabilising to the extent that they violate established role expectations in a given political system. A second conclusion reached is that any irregular political event does not necessarily mean that the operations of a foreign company will be adversely affected (Kobrin, 1978: 120). These conclusions are important to grasp since they may influence an investors decision to the extent that they may choose to avoid investing at all just due to the perceived risk outweighing the level which they have deemed as being acceptable. The result is therefore that the flow of foreign direct investment is constrained and this in turn means that both the potential investor and the potential host country lose out.

1.5.6 *The Impact of the Stage of Economic Development and the Degree of Openness of the Host Country's Political System*

To a certain extent, the nature of political risk will depend upon both the intent and the capabilities of key actors to amend events. In turn, this will stem from certain attributes of the host country, specifically but again not exclusively, one here has to refer to the particular stage of economic development in which the host country finds itself. As well as the degree of openness of the political system which, is portrayed by the host country (Simon, 1984: 127).

Simon (1984: 130) argues that the degree of openness in the society is an important aspect of political risk due to the fact that it explains the tendency and capability of non-governmental actors to shape events. The distinction arises from the fact that in an open society, expressions of discontent can be constructively aired in non-violent ways i.e. elections, protests, boycotts, etc. In closed societies on the other hand, a mechanism of expression does not exist. As a result, these kinds of societies may therefore resort to violence as the only means of expression available to them.

This study focuses on South Africa and Nigeria both countries to a certain extent may be regarded as being open-developing countries. Even though some countries or organisations may regard South Africa as being a developed country, the income inequality and economic disparities within the country do not allow it to be classified as such. In open-developing countries, the need to promote economic self-sufficiency increases the likelihood of host government local content and technology transfer requirements, as well as import/export regulations. It should be noted that open-developing countries are not without social upheavals i.e. strikes; protests and boycotts against MNEs are likely to occur due to the struggle for economic benefits. However, the openness of the system does allow for societal dissatisfaction to have a peaceful outlet (Simon, 1984: 131). It should be noted however, that both in South Africa and Nigeria dissatisfied workers have extensively made use of strikes, protests and boycotts to vent their dissatisfaction.

Simon argues that the most serious indirect external risk facing MNEs in developing countries, whether they be open or closed systems, stems from the problem of mounting external debt. This has an effect on both the host country's economy and the stability of the international financial system. It has also been argued that external debt is not the result of internal problems, rather it is due to external factors beyond the control of the developing country e.g. inflated prices for energy products, non-oil commodity price fluctuations, etc. (Simon, 1984: 134). It is no secret that Nigeria's external debt has to a large extent crippled the economy and continues to impede real growth. In the case of Nigeria, alongside the usual reasons given above for this occurrence, Nigeria has struggled and continues to struggle with corruption and this has no doubt influenced the state of its current external debt.

1.5.7 *Growth Employment and Redistribution Plan (GEAR)*

The economic policies that host governments choose to implement have a significant impact when it comes to attracting foreign direct investment. In June 1996, the South African government introduced a macro-economic strategy i.e. GEAR, which had a number of objectives. It was the purpose of this plan to implement an overall macro-economic environment conducive to growth and an expanding domestic and regional market; the gradual removal of exchange controls; improve domestic savings; restructure state assets so as to create opportunities for equity investment in public corporations by foreign partners; improve labour market flexibility and increasing training for a more skilled and productive workforce; reduce crime and social stability as well as create favourable incentives to promote investment in manufacturing (IDC Research Paper Series, 1997: 8).

Although government set out with the best intentions, this proposal was idealistic to say the least. Although few of the objectives have been attained to a certain degree, most of the proposed objectives have not nearly come close to fruition. Arguably therefore, GEAR has for the most part been unsuccessful.

1.5.8 *Manufacturing Development Programme (MDP)*

Following on the release of GEAR, government also introduced the Manufacturing Development Programme (MDP), to ensure increased levels of domestic and foreign direct investment in the future. The MDP is aimed at: raising fixed investment in manufacturing; restructuring domestic manufacturing towards international competitiveness; facilitating a higher degree of labour absorption and encouraging small and medium-sized manufacturing. The incentives are equally accessible to local and foreign firms and their favourable impact on investment returns should promise a significant stimulus to investment in South African manufacturing (Burger, 1999: 26).

1.5.9 *Unionisation*

Unionisation is of particular importance when analysing a particular industry for investment. Furthermore, given that union involvement in the decision making process is likely to increase, it is important to take account of the various union representations as well as agreements that may be reached with specific unions and industries. Labour unions are a way of life for most South Africans, protecting workers from exploitation both national and foreign. COSATU, the predominant labour union in South Africa, has immense power to rally supporters in such a way to bring the economy to a standstill and they also enjoy close ties with government. Their overriding influence however, has made most investors cautious and even weary to invest, here again a reflection of the risks outweighing the rewards (Barret, 1996: 42).

1.5.10 *The Labour Relations Act*

Another important agreement that has a significant impact on industries and therefore also on foreign investment, is the Labour Relations Act. The Act essentially covers all employers and employees except the National Defence Force, the South Africa Secret Service and the National Intelligence Agency. The Act establishes a number of trade union organisational rights namely: the right to information for collective bargaining and other legitimate purposes; the right to time off for union activities; the right to select trade union representatives and the right to stop order facilities, amongst others. The Act also makes provision for the compulsory establishment of workplace forums under specified circumstances. These forums have legitimate functions, including communication and decision making powers. It is intended to introduce worker-participation and elements of employee co-determination into the South African industrial relations system (Burgher, 1999: 64-65).

1.6 Methodology

This research report will primarily make use of qualitative data sources of, which will be found in various subject-related books, magazines, newspaper as well as journal articles. With regard to economic and political policies that will be investigated with regard to foreign direct investment, government publications will also be utilised, the Internet will also be a prominent source of information, especially as a way of ensuring that changing trends or new information will not be overlooked.

As mentioned, this study will make use of qualitative data collection with the dimensions of research focussing on that of descriptive and explanatory research. Descriptive research aims to present a picture of the specific details of a situation or social setting. In descriptive research one begins with a well-defined subject which one has to conduct research on to describe it accurately. Descriptive research focuses on "how" and "who" questions (Neuman, 1999:22; Babbie, 1995: 80). In this study therefore the particular subjects that will come under scrutiny will be that of foreign direct investment and political risk, particularly "how" foreign direct investment is influenced by political risk.

Explanatory research builds on descriptive research and identifies the reason a particular phenomenon occurs. Explanatory research therefore seeks causes and reasons. The purpose of explanatory research is to find out "why" something occurs (Neuman, 1999: 22-23; Babbie, 1995: 82). This study will therefore aim to explain why foreign direct investment is influenced by political risk.

Quantitative research is followed on a more linear path than is qualitative research. Meaning that a linear research path follows a fixed sequence of steps. Qualitative research is more non-linear and cyclical (Neuman, 1999: 124).

This study is a comparative analysis of foreign direct investment and political risk in South Africa and Nigeria. These two countries were specifically chosen because to some extent they are both economic giants on the African continent. South Africa dominates southern Africa economically and Nigeria is not only the most populous African nation, it is also the economic forerunner in West Africa.

The focus of comparative research is on similarities and differences between units, in this case states. Comparative research is useful because it gives rise to a broader perspective of political and socio-economic phenomena and behaviour. The reason for comparing countries has been attributed to four main objectives, all of which co-exist and are mutually reinforcing in any systematic comparative study. The four main objectives include contextual description, which allows political scientists to know how other countries function. Classification simplifies the political world and this in turn assist political scientists in their hypothesis-testing and subsequently in their predictions of a country's political and economic future (Kopstein, 2000: 22; Mahler, 1995: 8; Peters, 1988: 5).

Comparative research also has limitations. It is more difficult, more costly and more time consuming than research that is not comparative. The types of data that can be collected and problems with equivalence are also frequent problems. Another limitation is that comparative research can only apply, not test theory, and can make only limited generalisations (Neuman, 1999: 401-402; Mahler, 1995: 12; Peters, 1988:8).

It has been the experience of this researcher that the above claims are true. Firstly, relevant data is not freely available or easily accessible, especially with regards to Nigeria. Gaining data is also relatively expensive and the fact that it is usually only segments of a particular article that is relevant makes it even more so and extremely frustrating as well. Another problem relating to data collection that has been experienced by this researcher is the lack of up to date and reliable data. This is especially true when one is doing research on an African country. Statistics on Nigeria remain problematic since they are very rarely reliable and vary quite a bit from one article to the next and they are not easily attained. Therefore even though this is a comparative study, this researcher found it challenging to compare certain aspects of the two countries on a strict line by line basis.

1.7 Outline of Remaining Chapters

This research study will consist of six chapters. The first chapter will consist of the problem statement, the conceptualisation of key terms that will be addressed in the study, the methodology that the study will use as well as a chapter outlay of the study. The second chapter will address recent trends of foreign direct investment in Africa, specifically South Africa and Nigeria. The chapter will also discuss political and economic policies that South Africa has adopted with regard to foreign direct investment as well as South Africa's relationship with international financial institutions i.e. The International Monetary Fund (IMF); The World Bank and the World Trade Organisation. The third chapter will discuss South Africa's labour market, focussing on the impact of unionisation and the role which trade unions played in the transition to democracy as well as the various factors which presently affect the labour market i.e. the labour relations act; labour market flexibility; unemployment; education and training; labour productivity; the AIDS pandemic; affirmative action; strikes and crime. The fourth chapter will address the Nigerian labour market in comparison with that of the South African labour market i.e. comparing certain aspects of the two labour markets in the respective countries. Having discussed the various attributes of the labour market within the two countries and thus having formed a foundation, the fifth chapter will discuss the aspect of political risk within the two countries. First discussing the concept of political risk and then applying the impact which it has had in the two countries and how it has affected investor perception and therefore influenced the level of foreign direct investment received in the respective countries. Chapter six will be the concluding chapter, summarising the findings of the study and whether or not the findings help to answer the questions posed in the problem statement.

Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter Two: South African Policies Impacting On Foreign Direct Investment

2.1 *Introduction*

The shortage of capital is a major obstacle to growth and development in Africa. Africa's share of foreign direct investment (FDI) inflows is not only miniscule but it is also declining. In 1985, Africa received 3.1% of total global FDI flows, but by 1997, this figure had dropped to only 1,9%. Inflows to Africa are concentrated in a few mainly large and resource-rich countries. Over 60% of FDI inflows to Africa were concentrated in Nigeria, Egypt, South Africa and Morocco. Nigeria alone, accounts for a quarter of FDI flows to the continent. This shouldn't really be surprising since Nigeria is one of the world's primary oil exporters and as such it emphasises the central role of the primary commodities sector, and especially oil and gas, as a magnet for FDI (African Development Report, 2000: 29).

Despite its relative competitive strengths that include the prevalence of Western business culture, the widespread use of English and excellent infrastructure, South Africa still fails to attract substantial or even sufficient amounts of foreign direct investment. Which is in fact necessary to boost output and employment. Statistics show that for 1999 alone, foreign direct investment amounted to about 1% of GDP (Gross Domestic Product) and is widely regarded as too low to improve the long-run growth and labour absorption capacity of the economy (Business Africa, 2000: 2). In other words, foreigners are happy to lend money to South Africa; since there is political stability and disciplined economic management, and that some international credit rating agencies have classified South Africa as a highly acceptable "investment-grade" risk. Yet, they are much less keen to pump investment risk capital in the country.

Governmental investment friendly policies and international relations can go a long way in impacting on the perception that foreign investors have of a particular country and as such the level of foreign direct investment that they are willing to invest in a country. This chapter will address the specific aspects concerning policies that impact on the level of FDI in South Africa. The discussion will focus on the Reconstruction and Development Programme (RDP) of 1994, the Growth Employment and Redistribution (GEAR) plan of 1996 as well as the most recent plan, the New Partnership for Africa's Development (NEPAD). Which South Africa's President, Thabo Mbeki, is one of the founding fathers of, therefore giving South Africa an important stake in this plan. An element of South Africa's international relations includes its relationship with the international financial institutions. Specifically, the International Monetary Fund (IMF), the World Bank, and the World Trade Organisation (WTO). Discussion of the above is essential to place South Africa's position in the global economy in context and which as such determines the level of and impact of the FDI, which the country receives.

2.2 *The Reconstruction and Development Programme (RDP)*

The RDP outlined a nation-building strategy driven by public investment to meet basic human needs. It promised housing, sanitation, health care, and education for South Africa's long-disenfranchised majority. The RDP also called for a massive job creation programme via public works, a large-scale land redistribution programme, and a national strategy to extend electrification, telecommunications, clean water, and adequate public transportation to the entire country. At the same time, the RDP strongly endorsed labour rights, wanting a process in which citizens played an active role in the program's implementation. In short therefore, the RDP represented a comprehensive social reform programme (Williamson, 2001: 22).

2.3 *The Growth, Employment, and Redistribution (GEAR) Plan*

In contrast to the RDP, the GEAR plan is a testimonial to economic orthodoxy. It was also considered by the American state department as being evidence of South Africa's acceptance of free market principles. The South African Government announced the GEAR plan as part of its macro-economic strategy and it was regarded as being a state of the art framework for sustainable economic growth and development with an outward-orientation. Central to this strategy was the enhancement of non-gold export performance, increased private sector investment, particularly aimed at increasing labour opportunities, development of infrastructure and improved service delivery (Swart, 1996: 7-8).

This growth strategy envisioned that by the turn of the century a number of goals would have been achieved namely: a 6% per annum real economic growth rate will be sustained; 400 000 job opportunities will be created annually; manufactured exports will increase by more than 10% per annum and the investment rate will have increased to 25% of gross domestic product (GDP) (Swart, 1996: 7-8).

South Africa is competing for limited FDI against numerous emerging countries throughout the world. In response, the Government is endeavouring to create an investor-friendly environment in an attempt to attract more foreign direct investment. The release of the macro-economic strategy (GEAR) by the South African government amounted to an important step in this direction. The GEAR plan was aimed at attaining numerous objectives namely: creating an overall macro-economic environment conducive to growth and an expanding domestic and regional market; the gradual removal of exchange control; improving domestic saving; restructuring state assets so as to create opportunities for equity investment in public corporations by foreign partners; improving labour market flexibility and increasing training for a more skilled and productive workforce; reducing crime and improving social stability and last but not least, creating favourable incentives to promote investment in manufacturing (Swart, 1996: 7-8).

It has been argued that it would be wrong to say that GEAR had no redistribution content. Since the document called for continued progressive taxation, a reprioritization of public spending to better help the poor, and improvements in public infrastructure. Yet the aim of correcting the inequalities of apartheid was subordinated to the goal of boosting economic growth. It must also be taken into account that in essence, for GEAR'S authors, promoting economic growth meant greater fiscal discipline, lower tariffs, fewer exchange rate controls, and greater labour flexibility. With the goal, to build South Africa, as an export power and create a favourable environment for corporate-led growth (Williamson, 2001: 2).

2.4 *The New Partnership for Africa's Development (NEPAD)*

NEPAD is an amalgamation of South Africa's Millennium Partnership for the African Recovery Programme (MAP) and OMEGA plan, finalised on July 3, 2001. Out of the merger, the New African Initiative (NAI) was born. NAI, approved by the OAU, Summit Heads of State and Governments in Lusaka on July 11 2001. NAI received endorsement from the leaders of G8 countries on July 20. Its policy framework was finalised on October 23, forming the NEPAD (Nevin, 2002: 35).

One of the key elements of the NAI / NEPAD is the attraction of greater volumes of investment and aid from the developed countries. South Africa, given its low domestic savings rate, requires substantial amounts of foreign direct investment to reach its employment and economic growth targets (Sidiropoulos and Voges, 2001/ 2002: 252). With NEPAD, Africa is offering to move away from a relationship of dependency with the developed world and replace it with one of development between equals through co-operation, mutual understanding and partnership in the global economy. The challenge NEPAD lays down to the developed world is for them to provide Africa with the tools to do the job. These tools include debt relief, development aid and increased and easier access for African products into the markets of developed countries. NEPAD stipulates that Africa must first establish peace, security, democracy, human rights and good political and economic governance on free market principles. In return the G8 countries will set aside 0.7% of gross domestic product a year for official development assistance (Nevin, 2002: 35).

2.4.1 *The Aims and Prospective Outcomes of NEPAD*

To fully comprehend what the exact aims of NEPAD consists of, a brief, but all-inclusive breakdown of its particular components are necessary. To ensure sustainable development the following criteria are necessary: peace, security, democracy and political governance; economic and corporate governance as well as regional co-operation and integration. In its outline, NEPAD aims to focus on what has been regarded as priority sectors namely: infrastructure; information and communication technology; human development focusing on health, education and skills development as well as agriculture and the promotion of diversification of production and exports. Related to this is a specific set of developmental goals including: to achieve and sustain growth rates of seven percent for the next 15 years; to reduce the number of those living in poverty by half by 2015; to enrol all children of school age in primary school by 2015 and to implement sustainable development strategies by 2005, that will reverse the loss of environmental resources by 2015 (Mills & Hughes, 2001/2002: 140).

With all of the above taken into account, the anticipated outcomes include i) economic growth and development and increased employment, ii) reduction in poverty and inequality, iii) diversification of productive activities, enhanced international competitiveness and increased exports as well as iv) increased African integration (Mills & Hughes, 2001/2002: 140).

With the above-stipulated goals, it should however, be realistically noted that for them to reach fruition, Africa's economies need to grow by at least 7-8% in real terms annually. At the moment, this is far above their average performance of 2,2% in the years 1991-97. Relating factors is the level of investment, which would have to rise from 16% of GDP to 22%-25% over the next decade, as well as aid, which would have to increase by $10 billion annually. At present what impedes this already gigantic initiative, is the fact that aid flows are less than half of what they were two decades ago. Also, due to bad governance, being one factor amongst many, foreign direct investment to Africa dropped by 13% between 1999-2000, accounting for less than one percent of global capital flows (Mills & Hughes, 2001/2002: 143).

2.4.2 ***Potential Deficiencies of the NEPAD Plan***

NEPAD has inherent weaknesses and pitfalls which have up until now been categorised into six challenges, each of which will now be discussed.

It should firstly be recognised that one of the integral strengths of the NEPAD is also one of its major weaknesses. In order to achieve its goals, the NEPAD in fact assumes a restructuring of the power relationship between Africa and the economically advanced Organisation for Economic Co-operation and Development (OECD) countries. So much so that an analogy has been drawn with the post-Second World War Marshall Plan to reconstruct Europe. The difference however, lies in the fact that Africa is marginal to the OECD while Europe was pivotal to world reconstruction. Relatedly, Europe provided an attractive return on investment after the war, not so the case in Africa, since at the present moment there is no compelling need for OECD countries to risk capital in Africa. The end of the Cold War adding to this disincentive, since there is no longer the need to invest in certain African countries for ideological and military reasons. Here it should be noted that should the OECD countries fail to become fully-fledged partners in the NEPAD, the most ambitious programmes will not meet their targets (Mills & Hughes, 2001/2002: 144).

Even though the programme priotises the importance of good governance. Economic management and self-reliance, the mechanisms for translating this into concrete action, still remain vague. At present, no political mechanism for co-ordinating the NEPAD exists, posing therefore a third potential problem. NEPAD has also for the most part remained a concoction dreamt up by state leaders i.e. being a top-down, technocratic process in which Parliaments and the public have both had very little say. The fifth point of dispute relates to the above. NEPAD has undertaken a macro policy approach with the aim of integrating external and internal policy action, this may be problematic in that it may overlook the more simple policy issues that African states can do something about in isolation e.g. cultivating good governance. It should also be noted that public and private support for the NEPAD is inevitably and immediately linked to specific perceptions of the region, and more general perceptions of the continent as a whole. This entails confidence in the ability of African states to regulate and, if necessary, sanction errant behaviour. Which they have not yet been able to do successfully, the Zimbabwe situation being a case in point. Having been unable to thus far reduce perceptions of risk, is one of the reasons explaining why sub-Saharan states have been able to attract on average only four percent of private global capital flows. This is disheartening when one considers the fact that in 1999, rates of return on investment in Africa were the highest worldwide (Mills & Hughes, 2001/2002: 147).

2.4.3 *What makes NEPAD Different from Previous Plans?*

Previous plans failed because they simply comprised wish lists that the African countries presented to the rich world (Nevin, 2002: 35). What also sets it apart from other previous African initiatives are both its strict criteria for membership of the NEPAD club and the potential sanction of deviants, as well as the apparently highly technical nature of many of the projects (Mills & Hughes, 2001/2002: 144). In essence, NEPAD provides three new elements i.e. it is African developed – managed and owned, it brings the concept of a new partnership into play and Africa is undertaking commitments and obligations in its own interests which are not externally, imposed conditions (Nevin, 2002: 35).

The first priority however, is to address investor perception of Africa as a high-risk continent, especially with regard to security of property rights, regulatory framework and markets.

2.5 *South Africa And The International Financial Institutions*

The global economy over the years has undergone a significant amount of substantial and unpredictable structural change that has had a serious impact on the system as a whole. Examples of these include the collapse of the fixed exchange rate system, the Southern debt crisis, increasingly protectionist policies, etc. South Africa has not been immune to these changes. International finance has been an important factor in South African economic development since the beginning of the country's industrialisation. In the 1980s, international financial flows dried up due to poor economic performance, the impact of sanctions, and the global debt crisis. However, since the transition to democracy, the IMF, World Bank, and private and public foreign investors and institutions have returned to the country. However, economic growth remains slow and employment remains stagnant (Shrivastava, 2000/2001: 146). The remainder of this chapter will now focus on South Africa's relations with the above-mentioned international financial institutions.

2.5.1 ***The International Monetary Fund (IMF)***

The IMF began as a multilateral organisation that administered the international monetary system. Since the collapse of the fixed exchange rate system in 1971, the IMF has assumed two different roles. It has now become an organisation that conducts research and offers advice on macro-economic policies to member states, and a supplier of loans to governments. The IMF as an organisation therefore has two focal points i.e. preparing of confidential internal macro-economic analysis of its members' economies as well as carrying out missions that negotiate lending programmes (Shrivastava, 2000/2001: 146). This background to the organisation was necessary in order to establish the impact that the organisation has on investor perception of countries. Since the organisation has such an overriding influence on monetary policies in countries it has been known to be a benchmark by which potential investors decide to invest or not.

During 1998, South Africa experienced serious foreign exchange market pressures, largely as a result of contagion from other emerging market economies. Starting in July 1998, the authorities kept monetary policy consistently tight, refrained from intervention in foreign exchange markets to defend the currency, and maintained course on fiscal policy. Because of these policies and an improved global environment, the authorities regained investors' confidence, which led to a resumption of capital flows. Despite this however, the trend of decline in formal private sector employment continued in 1998 and 1999, therefore, the official unemployment rate, which was 22% in 1997, probably increased. While headline inflation fell from nine percent in December 1998 to 2.6% in January 2000 (Shrivastava, 2000/2001: 147).

South Africa's position in the IMF is relatively comfortable. However, evidence of stabilisation of market conditions, a strengthening of public finances and an improvement in external accounts is not enough. Shrivastava (2000/2001: 148) argues that broad-based economic recovery in South Africa requires the authorities to raise growth potential to facilitate job creation and improve living standards of the poorer sections of the country. Furthermore, an urgent need exists to generate high and sustainable output and employment growth, to increase the skills of the labour force, and encourage domestic investment in conjunction with attracting foreign investment, while also enhancing efficiency. The IMF recommends reforms, most notably in the areas of trade liberalisation, privatisation and the labour market, to meet this challenge. Despite privatisation gaining momentum in South Africa with the sale of 20% of South African Airways in June 1999, the IMF still regards the process of privatisation as being too slow in South Africa. It is worth mentioning that privatisation revenues help to reduce debt and contribute to higher productivity growth, therefore privatisation should continue to remain a South African priority (Shrivastava, 2000/2001: 149).

It should also be recognised that the initiatives that came out of the 1998 Job Summit emphasised the importance for change in certain aspects of the labour market policy to encourage job creation for the unskilled. The IMF has pointed to the importance of implementing two measures proposed in the Growth, Employment and Redistribution Strategy (GEAR) that have yet to be carried out. These are the scaling down of wages for young trainees and the granting of greater discretion to the minister of labour to limit the extension of centrally negotiated wage agreements. It should also be taken into account that the effect of privatisation and labour market reforms on job losses must be recognised and addressed by policies in such areas as social safety nets, education and training (Shrivastava, 2000/2001: 149).

2.5.2 *The World Bank*

The World Bank's perception of or relationship with a country also acts as one of the deciding factors investors use when deciding whether or not to invest in a particular country. Like the IMF, the World Bank brings together in one organisation a myriad of activities. Though its core functions remain lending, development research and development assistance. South Africa was a founding member of the IBRD in 1944. It later became a member of the International Development Association in 1960, joining the International Finance Corporation (IFC) in 1957, and the Multilateral Investment Guarantee Agency (MIGA) in 1994. South Africa has a fairly good record with the World Bank as well. Between 1953 and 1966, South Africa took out eleven loans from the Bank (four for electricity projects and seven for transportation). Records show that the last of these loans was closed in 1968 and all amounts have been fully paid. Currently, the Bank focuses on poverty alleviation and reduction of inequality, as well as on economic growth in South Africa. MIGA has also issued guarantees for three investments in South Africa as well as two investments by South African corporation in neighbouring countries (Shrivastava, 2000/2001: 150).

2.5.3 *The World Trade Organisation (WTO)*

The core activity of the WTO relates to the negotiation and implementation of explicit rules on government policies relating to cross-border trade. While the World Bank and the IMF have considerable influence because of their resources and the fact that they deal predominantly with developing countries, the WTO deals with relations between countries. Further it also differs from the World Bank and the IMF in that it is a rule-making and rule-enforcing organisation (Shrivastava, 2000/2001: 150).

South Africa achieved a breakthrough in its efforts to form a trading bloc to push for the needs of developing countries when it officially launched a developing nation trade bloc with Brazil, India, Nigeria and Egypt. Furthermore, South Africa and Brazil are also exploring the possibility of a free trade agreement between Latin American trade bloc Mercosur and the Southern African Customs Union (SACU). Mercosur includes Brazil, Uruguay, Paraguay and Argentina, while SACU consists of South Africa, Botswana, Namibia, Lesotho and Swaziland (Shrivastava, 2000/2001: 151). Since the late 1980s when South Africa re-entered the global capital markets, the impact of international financial institutions on its economic philosophy has increased. More recently, the South African economy, similar to other developing nation economies, has been influenced by three developments. Firstly, the movement in commodity prices i.e. the persistent weakness of non-oil commodity prices continues to constrain growth.

Secondly, increased pressures for structural reforms i.e. these lead to increased privatisation, public sector reforms and other structural measures for improved fiscal control. Third and finally, various improvements in trade and political co-operation, including tariff reductions, regional and extra-regional trade agreements, bilateral trade liberalisation measures, etc. (Shrivastava, 2000/2001: 152).

2.6 *Conclusion*

For South Africa the ultimate test of economic performance will be the creation of meaningful jobs through an increase in both domestic fixed investment and foreign direct investment. This requires an effective and shrewd combination of a range of policies and practices that need to be implemented in pursuit of a common economic and social development agenda and goal.

From a macro-economic policy and management point of view, South Africa's prospects in the global economy, are good. Sound economic fundamentals are in place. However, the country's ability to build and sustain a growing and competitive economy, and to create jobs and prosperity for all, rests on several factors. First, the role of the South African Reserve Bank will continue to be crucial, due to the integral role of monetary policy in the management of any economy. A second factor points to the signing of the South Africa – EU Free Trade Agreement (FTA) and the lifting of sanctions on Libya after South Africa facilitated the handing over of the two Lockerbie suspects, these successes need to be maximised to improve the country's economic strength. And the final factor on which South Africa's prospects in the world rests upon, is the geopolitics and economics of the southern African region. Botswana is positioning itself as one of the most attractive and worthwhile places for foreign direct investment in southern Africa. Yet civil wars and the current volatile situation in Zimbabwe do not bode well for regional economic growth, security and prosperity (Dlamini, 1999/2000: 2).

The aim of the above discussion was to highlight the various government policies and programmes that impact on foreign direct investment. The relationship which South

Africa and Nigeria respectively has with the international financial institutions was also highlighted. This was necessary in that these institutions have a significant impact on investor perception of a particular country and may therefore influence investors' decision on whether or not to invest in a country. As in the case of Nigeria, which suffers from an overwhelming debt problem, investor risk also immediately increases that much more. And since being given the cold shoulder by the IMF, potential investors may follow suite since the reaction of the IMF may be regarded as being justified.

The following section of this paper will discuss the aspect and influence of unionisation in South Africa in relation to the South African Labour Market. South Africa's body of unions under the umbrella organisation of COSATU played a crucial role in the transition process of government. South Africa has always had a very prominent union movement which has gained influence so much so, that it is currently represented in parliament. This has been both advantageous and disadvantageous, since the prominent role that it has come to play has now started to act as a deterrent to foreign investors. Related to this is the South African Labour Market, who although in abundant supply, has its own inherent problems. These problems include education and training, strike demonstrations that occur from time to time, the quota system and arguably the most pressing problem of all, the high rate of HIV-AIDS infection amongst the labour force, which in fact has the potential to completely cripple if not wipe out the entire labour force.

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Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter Three: Unionisation And The South African Labour Market

3.1 *Introduction*

The previous chapter aimed to highlight the relevant and various policies that government has in place in order to facilitate foreign investment. Mention was also made of South Africa's relationship with the international financial institutions. This was deemed necessary since investors are known to make certain investment decisions based on the perception that is created by the relationship between a particular country and these institutions.

According to a report by think-tank Business Map (Corporate Location 2000: 2), foreign direct investment into South Africa in 2000 was 1.986 billion U.S. dollars, 52% down from its 1999 level of 4.092 billion dollars. The 2000 figure has been the lowest since 1994 when apartheid was brought to an end. Furthermore, a study conducted by A.T. Kearney (Corporate Location, 2000: 2), which focused on the perception of foreign investors about the potential of South Africa to be a location for investment relates to the above. Half of the current foreign investors interviewed reported that their companies are meeting profit targets while an astounding 91% reported that there is a significant likelihood that they will expand their South African business (Corporate Location, 2000: 2).

The study also found that non-investors displayed very little knowledge of the country together with a great deal of apathy. In the study, 39% of respondents claimed to have low levels of knowledge of the country and its FDI potential. With the group of uninformed respondents, only 14% said they have a positive view of the country, while a third saw the country negatively. Half of all companies without investments in the country said that there is a low likelihood of them investing in South Africa in the near future (Corporate Location, 2000: 2). The study singles out the limited domestic market as a reason for the response. Most companies see the local market as a determining factor in deciding where to place FDI. The inflexible labour market is cited by 66% of current foreign investors as the main obstacle to investment. Companies complain of having little power to lay-off workers as well as finding appropriate black staff to fill quotas set by the employment equity legislation, since although there is a willingness to comply with the legislation, the skills remain lacking (Corporate Location, 2000: 2).

Unionisation also continues to play an integral role within the spheres of the South African labour market. Trade Union Membership in South Africa has grown steadily since the early eighties. There was a slight dip during the period 1993 to 1995, largely as a result of retrenchments and the downturn in the economy. The Department of Labour reported in its 1998 Annual Report that registered union membership had increased by approximately 11% from 3.4 million members to 3.8 million in 1998. This increase can be attributed to a number of factors: the Labour Relations Act (1995) has encouraged growth in previously unorganised areas such as the Government, agricultural and domestic sectors. Also, with the simplification of registration procedures, more unions are registering to gain the advantages of so doing, such as the right to participate in bargaining councils (South Africa Yearbook, 2000/2001).

Total membership comprises approximately 30.8% of the estimated 15,8 million economically active population. The most important trade union groups or federations are the Federation of Unions of South Africa (FEDUSA), the National Council of Trade Unions (NACTU) and the Congress of South African Trade Unions (COSATU). The three largest trade unions are the National Union of Mineworkers (NUM), the National Union of Metalworkers of South Africa, both COSATU affiliates, and the Public Servants Association, an affiliate of FEDUSA (South African Yearbook, 2000/2001).

South Africa has always had a strong and influential union movement, so much so, that in many ways it has become a deterrent factor for foreign direct investment. A section of this chapter will focus on the rise and impact of the union movement. This historical overview is necessary so that the reader is able to perceive just how deep the roots of unionisation run in South Africa's history and having thus acknowledged this, it becomes apparent that unions will continue to play a vital role in both South Africa's political and economic arena. There is therefore no way that potential investors can wish them away. The rest of this chapter will concentrate on the South African Labour Market. The South African Labour Market suffers from impediments which not only have become obstacles to economic growth, but which also inhibits substantial amounts of foreign direct investment. The impediments referred to include unemployment, education, labour productivity, the AIDS pandemic, the employment equity legislation, strikes as well as the high South African crime rate. Each of these impediments will be discussed in turn.

3.2 *Historical Background of the South African Trade Unions*

In his article, Geoffrey Wood (1998: 76), states that since 1980, union membership and influence have risen in South Africa, this is in direct contrast to the rest of the world. This contrast according to Wood can be attributed to the integral role that legislative reforms in 1979 played in facilitating union organisation and collective bargaining. Related to this is the fact that within South Africa, the labour relations evolution markedly differs with that in the richer OECD countries. South Africa experienced some membership growth in the 1950s and 1960s, almost none in the 1970s, and a massive expansion in the 1980s, which declined to a certain extent in the 1990s. There were only 400, 000 union members in 1955 and 700,000 in 1979, but by 1993 there were 2,800,000. Arguably, two countervailing influences greatly facilitated the organisation of the workforce. These include the 1979 Wiehahn Reforms, which created a legal basis for establishing union recognition and collective bargaining for the majority of workers. The second influence was that of the coordinated participation of organised labour in the national liberation movement against apartheid, this served to enhance the ethical appeal of union membership (Wood, 1998: 76).

3.3 *The Four Phases of the Evolution of the South African Labour Movement*

South Africa's industrial relations laws have affected the evolution of the labour movement in four phases. The first phase starts with the 1924 Industrial Conciliation Act, which provided bargaining rights to unions of white, craft workers. The second phase was characterised by the 1979 Labour Relations Act and the Industrial Conciliation Amendments Act, which extended collective bargaining rights to African unions and enabled them to expand their membership. The 1988 Labour Relations Amendment Act in the third phase, restricted rights to bargain and strike. The fourth and final phase was highlighted with the repeal of the Labour Relations Amendment

Act in 1990 and the enactment of a new Labour Relations Act in 1995 re-established union bargaining rights (Wood, 1998: 77).

3.3.*1* ***The Formal Exclusion of Africans From Industrial Relations (1924-1979)***

South Africa's industrial relations were first formalized in 1924, with the passage of the Industrial Conciliation Act. This Act, together with the 1956 Industrial Conciliation Act, allowed certain groups of employees to form and join unions that could be registered with the authorities and granted official recognition status. The collective bargaining rights established by the 1924 Act were available mainly to white workers in the non-agricultural, private sector. African men were not prohibited from forming and joining their own unions, but had no right to register them, strike or participate in the industrial councils. The combination of these laws, a legally mandated job reservation system for whites in the private sector, the preferential hiring of Afrikaners in the public sector, and a segregated and unequal education system helped to create a racially divided labour market. Related to this is the fact that the white unions and employers on the industrial councils colluded in setting low wages for African workers. This resulted in the real wages of Africans stagnating whereas those of whites had, by the early 1970s, risen to five times African levels in the formal, non-agricultural sector. It should be noted that even though this trend reversed in the 1980s, average wages for Africans still remained just a third of average wages for whites in the 1990s (Wood, 1998: 79; Cedras, 1998: 35; Pretorius, 1996: 193).

3.3.2 ***Liberalization and the Attempts at Containment (1979-1988)***

South Africa's system of racist industrial relations was seriously challenged by massive strikes originating in Durban in early 1973. These strikes occurred at Coronation Brick and Tile, when workers went on strike following their employers' refusal to pay a minimum wage of R30 per week. The workers eventually had to be enticed back to work with wage concessions. Having thus achieved success, the experience taught African workers that industrial action on a massive scale could provide them with major improvements in wages and conditions at little risk of punishment by employers. Although the 1973 Bantu Labour Regulation Act, provided Africans with rights to participate in works committees. it did not provide them with full collective bargaining rights. Thus, another wave of strikes swept across the country in 1976 and 1977, when African workers took to the streets to demand the release of political prisoners and to protest the killing of Soweto students (Wood, 1998: 79; Cedras, 1998: 36; Pretorius, 1996: 193).

In 1977, the government appointed the Wiehahn Commission of Inquiry into Labour Legislation. The Commission reported back to parliament in 1979, and recommended that industrial relations be de-radicalised by extending full collective bargaining rights to Africans and that industrial conflict, be institutionalised by referring disputes to a new industrial court. Government then passed the 1979 Labour Relations Act, which afforded Africans the right to join and form registered unions, bargain collectively, participate in industrial councils, and strike, and by passing the 1979 Industrial Conciliation Amendments Act, which created an Industrial Court for adjudicating disputes (Wood, 1998: 80; Cedras, 1998: 36; Pretorius, 1996: 193).

The Wiehahn Reforms failed to dampen industrial unrest, because unions wanted more than economic rights from the government, they perceived their interests in a wider context of political repression and economic deprivation stemming from the apartheid regime. Prior to late 1984, union involvement in the national liberation movement was uncoordinated and limited to the local level. The labour movement as a whole did not ally itself with the national liberation movement until August 1984, when the South African Defence Force invaded the townships to try and restrain a huge rent boycott. Unions entered into this dispute responding to the request for help from the Congress of South African Students (COSAS). If unions were planning to embark on political action, they required a united strategy, this realisation led to the formation of two new federations. These two federations were divided into those unions committed to representing a racially inclusive membership founded the Congress of South African Trade Unions (COSATU) in 1985. Alternately, unions committed to representing an exclusively African membership formed another federation in 1986, which was named the National Council of Trade Unions (NACTU) in 1987 (Wood, 1998: 83; Cedras, 1998: 37; Pretorius, 1996: 194).

3.3.3 *The Return To Repression (1988-1989)*

The apartheid state reasserted its authority through repressive measures due to the failure of the Wiehahn reforms to reduce strike levels. In June 1986, a state of emergency was declared; this was followed by sixty-five police attacks on trade unionists and their premises. These attacks however, did not stop nor prevent the continuation of massive social and industrial unrest since in 1987 a massive, three week miners' strike over wages occurred. Also, massive unrest resumed in July 1989, when the labour movement organised a National Defiance Campaign of demonstrations, worker summits, stay-away wildcat strikes, and overtime bans to protest against all unjust and discriminatory laws (Wood, 1998: 84; Cedras, 1998: 38; Pretorius, 1996: 194).

3.3.4 *The Post-Apartheid Transition (1989-1995)*

During this period, the South African economy slumped to an all time low, attributable factors included the following: trade and financial sanctions since 1986, political and labour unrest since 1984, and a decline in foreign exchange earnings, caused by a fall in the price of gold i.e. South Africa's main export. Also, due to the ongoing political and industrial unrest, foreign banks classified South Africa as a high-risk country as early as 1986 already. Adding to this in the years following 1985, South Africans were not allowed any foreign funds and, in compliance with the financial sanctions, many foreign manufacturing firms divested their South African holdings. To make matters even worse, South African businesses themselves, also lost confidence in the economy, this led to a decline in investment in plant, machinery, and equipment, specifically targeting the labour-intensive sectors, which had begun to be characterised by industrial unrest. Government was forced to counteract this drastic lack of investments i.e. the need to generate large current account surpluses by maintaining high interest rates and restraining growth. For every action however, there is a reaction and the reaction to the above was rising unemployment and declining real incomes (Wood, 1998: 85; Cedras, 1998: 40; Pretorius, 1996: 195).

3.4 *The Influence of Trade Unions During the Transition*

Placing the role of the trade unions in context during the transition period is necessary since the role that they played cannot be underestimated. Trade unions continue to hold significant clout with South African workers since they are the ones who workers regarded as being most likely to see to it that their concerns and needs were seriously considered during the whole transition to democracy period. Trade unions wield a considerable amount of influence, illustrated by the fact that they are able to call strikes and in the process cause significant economic damage to a country while at the same time instigating political unrest as a consequence of strike action. Not surprisingly therefore, they inherently hold a substantial amount of political and economic and therefore, subsequently also, investment risk. The mobilisation capacity or potential of a host country's labour market therefore, to a certain degree may influence the level of investment received.

The current role of the South African trade union movement is the result of several significant events that have occurred during the decline of apartheid in South Africa. Early in 1990, the largest black trade union federation, the Congress of South African Trade Unions (COSATU), was viewed as too "left-leaning" because of its connection to the African National Congress. This period was also characterised by the fact that the black trade union movement was not represented in the South African government, labour legislation at the time was quite restrictive, violent strikes were the predominant method available for achieving collective bargaining gains and no cooperation existed among trade union federations (Barret, 1996: 37; Cedras, 1998: 14).

Change was initiated when Nelson Mandela became president in 1994, followed by the passing of a comprehensive and progressive new law in the following year, concerning labour and which stemmed from a tripartite consensus. Another contrast between the old South Africa and the new South Africa is the allowance of foreign help. An example of this is that during the apartheid era, the AFL-CIO program that supported black trade unions was not allowed in the country. Yet, by 1995, an AFL-CIO office had been established in Johannesburg which now directly supports and assists South African unions (Barret, 1996: 38; Cedras, 1998: 14).

The trade unions played a significant role in South Africa's transition towards democracy. During the 1990-95 period, the trade unions were involved in numerous political activities i.e. petitioning the freedom of political prisoners, developing a mechanism to create a new constitution, assisting in the drafting of the new constitution, educating South Africans about government processes and voting procedures, aiding in plans for the 1994 election and assisting in the first all inclusive election, conducting the election of the African National Congress party, persuading the United States and other countries to lift the international trade ban as well as convincing foreign private investors to increase their investments in South Africa together with encouraging companies within South Africa to invest more in private development activities (Barret, 1996: 39; Cedras, 1998: 15).

3.5 *The Labour Relations Act*

The 1995 Labour Relations Act is one of the world's most progressive pieces of labour legislation in terms of its protection for striking workers, organisational rights granted to unions as well as the promotion of centralised bargaining. The Labour Relations Act (LRA), 1995 (Act 66 of 1995), came into effect on 11 November 1996, and bears the indelible stamp of the labour movement's influence. It retains the right to bargain and strike created by the Wiehahn legislation and provides new rights to participate in decision-making through workplace forums. Wood argues that at the very least, it makes no provision for deregulating and individualising the employment relationship in a manner that might reflect business rather than union interests (Barret, 1996, Wood, 1998, Pretorius, 1996: 209).

To conclude this section of the chapter, it has been noted that trade unions were the dominant force during the downfall of apartheid, and they maintain a powerful presence in the new South Africa. Also as the need for political activism of the past diminishes, there has been talk among the unions of returning to the basics of trade unionism i.e. collective bargaining, grievance handling, occupational safety, employee rights, and community involvement. Thus even though strikes do occur, the growing use and increased acceptability of the mediation-arbitration service during the past few years, by both labour and management, shows clear and positive evidence that such processes can work in South Africa. To their credit it should also be noted that the Congress of South African Trade Unions has maintained its independence from both the government and the African National Congress. It is however able to influence government policies through former trade union officials who now hold positions in government (Barret, 1996: 41; Satgar, 1996: 102; Satgar, 2000: 74).

3.6 *The South African Labour Market*

Aside from investment, the economic growth within the country is dependent on a variety of factors, the backbone of which is the South African labour market.

Having had an in-depth discussion about the integral and instrumental role played by the trade unions in both South Africa's past and present, the second part of this chapter will focus on the South African Labour Market as well as the challenges it faces. Challenges, which impede the flow of foreign direct investment into the country and challenges, which if not adequately addressed, have the potential to lead to the continued economic and social decline of the country.

3.6.1 *Understanding The Concept "Labour Market"*

The "labour market" refers to the institutions that determine how labour power is bought and sold i.e. how many jobs there are, the wage rate, hours worked, and conditions of employment. Therefore, the labour market has a profound impact on the economic welfare and social well being of all South Africans. The "labour market" differs from both the product and financial market in three specific ways.

First, labour can contest the conditions under which it is exchanged. Employers generally purchase a worker's labour time and not the realised value of what that labour produces. Therefore, the labour market and the labour process are inherently political and subject to conflict. Second, labour is both a producer and consumer of goods. Labour is therefore essential in discussions around appropriate macro-economic policies. With this in mind, labour market outcomes may influence aggregate demand for goods and services and impact on the overall health of the economy (Naidoo, 1998: 38; Baskin, 1996).

Third, the labour market is in fact a number of quite separate market segments. Region, skill level, occupation, the nature of the work, race and gender, segment markets. This can be illustrated by the fact that the professional worker is skilled and in relatively short supply in South Africa, and subsequently, has greater bargaining power. On the other side of the spectrum, the unskilled worker has little bargaining power due to the surplus of workers and shortage of jobs (Naidoo, 1998: 38; Baskin, 1996).

The South African labour market is divided into three broad segments i.e. the primary labour market, the secondary labour market, and the informal/unpaid labour market (Naidoo, 1998: 41; Baskin, 1996).

The primary labour market refers to white-collar professionals, management, some service providers, and higher skilled public service employees. The secondary labour market refers to production workers, low paid service workers, and agricultural labour. The informal/unpaid labour market is comprised of domestic workers, informal sector employees, household labourers, and informal, subsistence agricultural labour. Movement from one segmented market to another is extremely difficult. Also, workers in secondary and informal/unpaid segments face greater risk, lower pay, less job security and often a lower level of bargaining power than do workers in the primary segments (Naidoo, 1998:41; Baskin, 1996).

3.6.2 *Labour Market Flexibility*

It has been stated that the South African labour market is too "rigid". This "rigidity" has also been blamed for bringing about job loss and negative job growth. As a result, businesses demand greater labour market flexibility. The term "labour market flexibility" is not always clear. It may have a positive connotation i.e. referring to the ability of workers to move up job grades, but more often than not, it refers to eroding labour standards and subtle forms of union bashing (Naidoo, 1998: 45; Baskin, 1996; Satgar, 2000: 53).

The three main types of flexibility can be categorised into work process flexibility, wage flexibility and numerical flexibility (Naidoo, 1998: 45; Baskin, 1996; Satgar, 2000: 53).

Work process flexibility refers to the way in which production and grading is organised. For employers, it refers to the ease with which they can shift workers between activities; alter hours of work and work practices. It includes such aspects as multi-skilling, job-rotation and different forms of teamwork. Reports show that this is the only form of flexibility that is rare in South Africa (Naidoo, 1998: 45; Baskin, 1996; Satgar, 2000: 53).

Wage flexibility refers to the extent that wage rates will change as employers' demand for new workers changes. It also refers to shifting from a uniform pay system based on the time that workers spend at work to a system where wages are linked to performance e.g. productivity bonuses (Naidoo, 1998: 45; Baskin, 1996; Satgar, 2000: 53).

Numerical flexibility refers to the ease with which employers can hire workers when needed and fire them when they are not needed. An example of this includes the use of casual or seasonal workers. In this case, workers are brought into production when needed and released again, rather than being continuously employed (Naidoo, 1998: 45; Baskin, 1996; Satgar, 2000: 53).

3.7 *Structural Challenges in the South African Labour Market*

At the start of this chapter, mention was made about the challenges that South Africa faces in terms of attracting foreign investment, since not meeting these challenges has actually caused the impediment of investment and in some instances has even led to foreign divestiture. The challenges which South Africa faces include the following: unemployment, the current lack of formal education which prevents the development of manpower and expansion of the labour pool, the poor levels of labour productivity experienced by the economy, wage levels, government intervention – another term for affirmative action, the AIDS pandemic as well as mass action in the form of strikes and the impact it has on the economy. This part of the chapter will now address each of these challenges in turn.

3.7.1 *The Unemployment Challenge For Labour*

Unemployment remains South Africa's most formidable economic challenge, arguably, second only to the even more formidable AIDS pandemic. The total number of people who are willing and able to work is called the economically active population. In 1993, the Department of Labour estimated the economically active population of South Africa to be in the region of 13,4 million (Grosset, 1998: 126). According to the October Household Survey of 1997, about 22% of South Africa's economically active population are unemployed. The majority of the unemployed are black men and women under the age of 35 years (South African Yearbook, 2000/2001). In a study conducted by the National Labour and Economic Development Institute (NALEDI), slightly higher figures are mentioned. According to them, about

4,5 million people, representing 37,6% of an economically active population of 12,1 million, were unemployed in 1997. This shows a significant increase from the 1995 level of 29,2% (Naidoo, 1998: 39). Research also shows that unemployed people tend to remain unemployed for a long time, indicating the structural nature of unemployment. (Naidoo, 1998: 39; Bhorat, 1996: 143-146; Mohr, 1998:89).

The concept of unemployment can be divided into five categories i.e. frictional unemployment, cyclical unemployment, structural unemployment, seasonal unemployment and classical unemployment. Structural and, more recently, cyclical unemployment, mainly afflict South Africa (Grosset, 1998: 127; Mohr, 1998: 80-89).

Cyclical unemployment refers to a fluctuating level of unemployment and has been a fairly recent phenomenon in the South African economy. Studies indicate that from the start of the recession in 1989 to the first quarter of 1993, some 350 000 jobs were lost in the formal sector and about 30 000 were lost in the informal sector. Also contributing to South Africa's unemployment rate is the fact that between 1992 and 1993, the top 100 South African companies decreased employment by approximately 220 000 (12,7%) jobs i.e. from 1,94 million to 1,72 million (Grosset, 1998: 127).

Structural unemployment occurs when there is a mismatch in job opportunities and skills. An illustration of this is when even though there might be jobs available in the economy, there might only be workers available who lack the necessary skills to perform the work. These workers will therefore remain unemployed until such time as they upgrade their skills. This is possibly the major contributor to South Africa's unemployment crisis stemming from apartheid's legacy of poor education and poor employment. In the South African economy there is unemployment since there is an oversupply of unskilled workers for which there is a lower demand and an undersupply of skilled workers, for which a higher demand exists (Grosset, 1998: 127; Mohr, 1998: 80-89).

According to Statistics South Africa's Household Survey of October 1999, using the strict definition, the unemployment rate was 23.3%. Reflecting a 4,0% increase i.e. from 19,3% in 1996. Whereas using the expanded definition, the unemployment rate was 36,2%. This reflects a 3,2% point increase over the 1996 figure of 33,0% (Statistics South Africa, October Household Survey, 1999).

The appropriateness of the strict definition is debatable, where unemployment is of a deeply structural nature, as is the case in South Africa. There is a high incidence of discouraged job seekers with 43% of unemployed persons having searched for formal sector jobs for at least three years. Official employment data in South Africa is subject to considerable debate, and currently under review. Many of the official surveys providing figures for the 1990s cannot be compared due to constant changes in definitions (Statistics South Africa, October Household Survey, 1999).

A sufficient labour pool with access to equal education opportunities and with the necessary skills and training may to some degree alleviate the problem of structural unemployment. It should also be noted that South Africa, like most other developing countries, has no accurate register of unemployment, therefore it seems that official statistics reflecting the unemployment rate is to some degree, somewhat inadequate. This is problematic in that there may be thousands more unemployed than estimated in surveys. This becomes even more of a problem since government would be unable to adequately provide the necessary and required facilities to fully accommodate those in need. Yet the fact that South Africa does indeed have a very large unemployment rate cannot be disputed.

3.7.2 *The Challenge of Education and Training For Labour*

Arguably, the enormous lack of education and training amongst the South African black majority can be regarded as the most detrimental impact of the apartheid regime. Formal education, which is regarded as the most basic level of education, has also been the most inadequate. Illustrating this is the fact that a decade ago, only 44% of the population had an education higher than a standard four certificate. Fifty-six percent were thus considered to be functionally illiterate and 35% of the economically active population were found to be illiterate, while only 15,8 % of the population had a school-leaving certificate. It is also further estimated that approximately 2,5 million people between the ages of 20 and 64 have no schooling at all (Grosset, 1998: 133; Macfarlane, 2002: 6).

As far as training goes, studies show that in most highly developed industrialised countries there is a ratio of two skilled workers for every unskilled worker. However, in South Africa, there are five unskilled workers per skilled worker (Grosset, 1998: 133; Macfarlane, 2002: 6).

Training is extremely expensive, in 1994 alone, R70 million was spent to train 46 210 unemployed people for the formal sector and 65 044 for the informal sector (of whom only 6 564 and 14 168 respectively, received jobs). This fact again shows the importance and crucial necessity of foreign direct investment, which to a certain degree also necessarily invests in training in the host country. Another concern, which relates to the above, is the lack of professionals with degrees and diplomas being generated by tertiary institutions, since a successful economy depends largely on the creation of trained professionals and trained artisans (Grosset, 1998: 133; Macfarlane, 2002: 6).

3.7.3 *The Challenge of Labour Productivity*

One argument for the current lack of foreign direct investment, which South Africa receives, is blamed on the low productivity rates of the South African labour market. Strikes have become a feature in the South African economy and they necessarily mean lower productivity due to a substantial loss of working hours. It has therefore been argued that an increase in productivity necessarily implies an increase in the size of the South African economy and it would therefore also lead to a reduction in unemployment. Research shows however, that South Africa does in fact have rising labour productivity, even though employment is still on the decline (Naidoo, 1998: 60). In order to fully comprehend the impact which productivity has on the economy, one needs to conceptualise the term first.

Grosset (1998: 135) defines productivity as being the production of more with the same amount of human effort. Labour productivity is therefore seen as the efficiency with which output is produced by resources utilised (Grosset, 1998: 135). It may also be defined as being the amount of output produced, on average, in one hour of work or by one employee over a particular period of time (Naidoo, 1998: 60). It is important to note that productivity cannot simply be considered in isolation. It is both a product of, and impacts on a variety of contributing factors i.e. technology used, macro-economic policies, investment, trade, working hours, etc.

With regard to technology, logic would dictate that the introduction of the use of a piece of machinery, would make the work of some workers redundant, since the machine would be able to work faster and produce more and therefore lead to higher levels of unemployment. Although true to a certain degree, the opposite is also applicable, since the enhancement of technology also means that a need for more skilled and educated people who are able to operate the machinery will also occur and will therefore subsequently create more employment. A link therefore is formed between the productivity of the machinery, which in turn is dependent on the productivity of the person operating it. This links up with the above discussed challenge concerning education and training i.e. the educational and technical qualifications of an industrialised, highly productive labour force would then necessarily be higher than those of a low productivity agrarian-based labour force (Grosset, 1998: 136).

For a more comprehensive understanding of the impact which productivity has on South Africa's global standing regarding foreign direct investment, one needs to realise that the onslaught of globalisation meant an increase in foreign trade and massive foreign direct investment (FDI) in countries which ultimately benefit transnational corporations (TNCs) through reduced costs. Not surprisingly therefore, countries that offer access to raw materials and cheap labour have been the largest recipients of FDI from TNCs. At present however, South Africa is not in the running for receiving substantial amounts of FDI from TNCs. Due to the fact the even though it has experienced a growth in hourly compensation, it has shown no similar increase in productivity, even though productivity is on the rise (Grosset, 1998: 138; Mohr, 1998: 165).

A contributory factor, is the fact that labour cost per unit manufactured, both in rand and dollar terms has increased to a large extent. This has an adverse effect on South Africa's competitiveness in comparison with other developing countries. Reason being that South Africa's labour costs are as high in terms of dollars as some of the developed countries. Grosset (1998: 138) cites an example of this in terms of the average wage in the manufacturing sector. Since in South Africa the average wage in this particular sector is R1 500 per month, whereas in Vietnam and Indonesia it is R110 and R740 respectively. Another debilitating factor is the fact that South Africa is unable to offer the same level of efficiency as that of the more developed countries who offer similar high wages. Therefore since South Africa is too expensive by the standards of many other countries, it becomes unattractive as a potential site for foreign investment (Grosset, 1998: 138; Mohr, 1998: 165).

It becomes apparent that productivity policies and strategies pose a substantial challenge to labour. Since, on the one side of the coin, an increase in productivity necessarily means an increase in economic resources in South Africa coupled with a provision of a social wage, along with a rise in the standard of living and in the same vein also leading to the eventual alleviation of poverty. Realistically though, it should be noted that productivity simply and solely cannot achieve all of the above on its own. Even though it may produce the necessary resources for both social and economic development, change in both the institutional and distributive structures of the economy are a prerequisite if the set goals are to be achieved. On the flip side of the coin, within the context of a present day, capitalist economy, an increase in productivity may in fact lead to jobless growth combined with an unequal distribution in national income. This would not bode well for South Africa's social stability since it already struggles to come to terms with its already high and increasing unemployment as well as having one of the most unequal distributions of income in the world (Naidoo, 1998: 62; Mohr, 1998: 166).

3.7.4 *The Challenge of the AIDS Pandemic For South African Labour*

Research shows that at the end of 1999, 33.6 million people in the world were living with the Human Immunodeficiency Virus (HIV), the virus that causes Acquired Immune Deficiency Syndrome (AIDS). Related to this is that in 1999, alone, 5.6 million people, 44% of whom were women, and 3,6% of whom were children under the age of 15, were infected with HIV. Those who can least afford it; have been the most targeted by this non-discriminatory virus. Since it is estimated that 95% of those infected with HIV/AIDS live in the developing world, relatedly, of this 95%, approximately 70% live in Africa. This is not so surprising when one considers that the twenty-one countries with the highest HIV rates in the world are in sub-Saharan Africa. With this in mind it has been estimated that by the year 2020, close to 37,1% of deaths in the developing world will be due to HIV/AIDS (Peters 2000/01: 441 and Grosset, 1998: 143; Boseley, 2002: 13). These facts necessarily raise the question as to why there is such a high prevalence of the disease in sub-Saharan Africa?

The following factors have been identified as being the contributory factors explaining the prevalence of the disease i.e. migrant labour, population movement, gender inequality, lack of knowledge and poverty and inequality (Peters, 2000/01: 444).

Migrant labour, since when men take up migrant labour, they live apart from their wives for months at a time. Thus, during long separations from their wives, men who engage in extramarital affairs, put themselves and their wives at risk of contracting HIV. Population movement is another contributing factor. HIV/AIDS rates are higher in border towns where people tend to be on the move and may be tempted to engage in unprotected sex. Related to this is the fact that when economic and infrastructural development e.g. roads, leads to the movement of people, HIV rates tend to rise (Peters, 2000/01: 444).

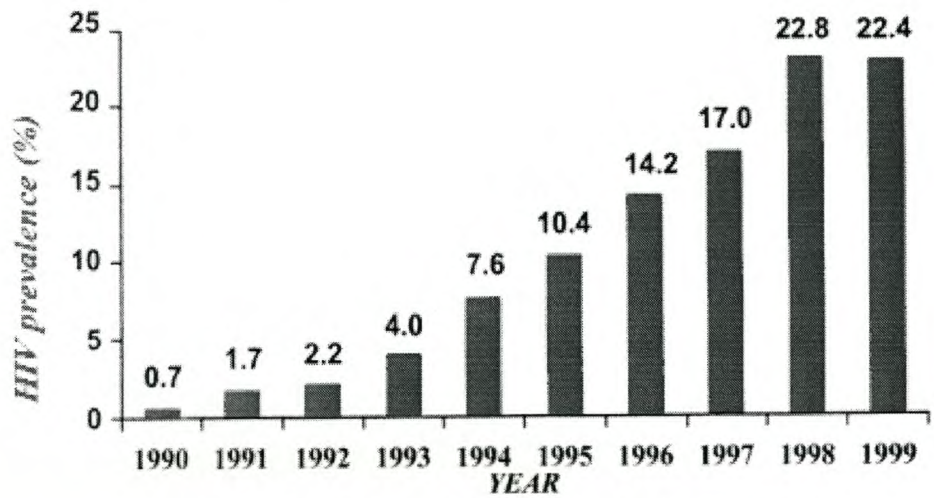
Due to gender inequality, HIV/AIDS spreads at a faster rate in situations where women are not empowered to demand that their partners wear condoms or remain monogamous. This is the case in most developing countries. Lack of knowledge about HIV/AIDS is a fourth factor increasing the spread of the disease. If people are not educated about HIV/AIDS, they may not know how to protect themselves against its spread. Rumours and myths cloud many people's understanding of HIV/AIDS and therefore also their ability to protect themselves against its spread, related to this is also the fact that myth and cultural attitudes portray the condom as a negative entity (Peters, 2000/01: 444).

Poverty and inequality is the fifth and final factor. Where poverty has led to the rapid spread of HIV/AIDS in the developing world, the spread of HIV/AIDS will in turn lead to increases in poverty. HIV/AIDS tends to affect those who are economically active in society i.e. the healthy, young sexually active men and women who are the main support of their households (Peters, 2000/01: 444).

Young people with HIV/AIDS also contribute to their respective economies. Their illness is likely to lead to increased absenteeism in the workplace, which will in turn lead to decreases in productivity, which will affect employers as well as the economy negatively. This will especially be the case when an economy is growing relatively quickly and has a demand for skilled labour. HIV/AIDS also threatens human development. Life expectancies in many countries have decreased due to HIV/AIDS, while simultaneously; child mortality and the number of AIDS orphans have increased (Grosset, 1998: 143, Peters, 2000/01: 445). The impact of HIV/AIDS on the South African economy can also not be ignored.

South Africa has one of the fastest growing HIV epidemics in the world. Since 1990, the Department of Health has undertaken a series of annual, unlinked, anonymous HIV surveys amongst women attending antenatal clinics of the Public Health Services in South Africa (Department of Health of the Republic of South Africa, 1999).

Figure 1: HIV Prevalence trends in South Africa 1990-1999



(Department of Health of the Republic of South Africa, 1999)

Refer to figure: 1 above. The above figure is a diagrammatical representation of the dramatic increase of HIV / AIDS in South Africa from 1990 to 1999, illustrating the increase therefore within a nine year period. Estimates of the national HIV prevalence for the years 1990 to 1998 show a steady increase from 0.7% in 1990 to 22.8% in 1998. This indicates an increase of more than 30 times from the beginning of the epidemic. The 1999 estimate (22.4%) suggests that the overall HIV prevalence rates have not increased, but there may be a slight change in the epidemiological trends of the HIV epidemic in South Africa (Department of Health of the Republic of South Africa, 1999).

Table 1: Rate of Percentage Increase Within Provinces

	W. Cape	E. Cape	N. Cape	Free State	Kwazulu/ Natal	Mpumu-langa	Northern Province	Gauteng	North West
1996	3.1	8.1	6.5	17.5	19.9	15.8	7.9	15.5	25.1
1997	6.3	12.6	8.6	19.6	26.9	22.6	8.2	17.1	18.1
1998	5.2	15.9	9.9	22.8	32.5	30.0	11.5	22.5	21.3
1999	7.1	18.0	10.1	27.9	32.5	27.3	11.4	23.9	23.0

Figures given as percentage estimated HIV infection (95% CI).

Taking into consideration that the survey was limited to women of childbearing age, estimates reflect only 15-49 year-olds

. (Department of Health of the Republic of South Africa, 1999)

Levels of HIV infection vary across different geographic regions in South Africa as the above table shows. Of the nine provinces, Kwazulu/Natal continues to be the province with the highest prevalence, which showed an increase from 19.90% in 1996 to 32.5% in 1998, but no further increase in 1999. In contrast, the Western Cape, whilst remaining the province with the lowest level of infection, shows a 36.5% rate of increase from 5.2% in 1998 to 7.1% in 1999 (Department of Health of the Republic of South Africa). Refer to table: 1 above.

The economic impact of the pandemic is exacerbated by refusing benefits to people with HIV, since this automatically shifts the burden for their care onto the government. This will impact negatively on the economy, as taxes will have to be raised to support public systems of care (Grosset, 1998: 176). The potentially devastating effects that HIV/AIDS has on national economies will undoubtedly be met by increased demands on public health budgets. An illustration of this fact is found in that 39% of beds in hospitals in Nairobi, Kenya, and 70% in Bujumbura, Burundi, are occupied by those who are HIV positive (Peters, 2000/01: 445).

3.7.5 *The Challenge of Affirmative Action For Labour*

Mention the concept of "affirmative action" and what springs to the minds of a large number of South Africans is that translated, it actually means, "reverse apartheid"(Hugo, 1996: 217). Unpacking this translation however simply means that certain privileges are conferred on certain population groups by virtue of race and colour. In theory, the main beneficiaries should be all those previously disadvantaged and discriminated against due to the above-mentioned traits i.e. the black majority. Women and the disabled are also included in this group; yet, it is a known fact that by far, the largest beneficiaries of any form of benefits are blacks (Grosset, 1998: 153).

The Employment Equity Act of 1998 also relates to affirmative action. It signalled the beginning of the final phase of transformation in the job market, which began with the implementation of the Labour Relations Act of 1995. It aims to achieve representivity in employment and correct past discriminatory employment practices. The Act compels employers to adopt employment policies and practices which do not unfairly discriminate on the basis of race, sex, disability, pregnancy, marital status, ethnic or social origin, sexual orientation, opinion, culture, language, religion or belief (South African Yearbook, 2000/01). It is a well-known fact that South Africa has one of the most liberal and progressive constitutions; some may even argue that it is to our own detriment, doing more harm than good in certain aspects. Affirmative action is enshrined in the Constitution under Act 108 of 1996. Section 9(2) states:

> *Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons or categories of persons, disadvantaged by unfair discrimination may be taken* (The South African Constitution, Act 108, Section 9(2).

Conceptualising the term "affirmative action" in a nutshell therefore means a way in which to overcome the effects of past discrimination with regards to race and gender. It thus becomes a policy that applies a different set of standards and rules to individuals of different population groups. More specifically, it translates into being a policy of national reconstruction and transformation. Its eventual aim therefore, being the elimination of all inequalities stemming from past discrimination (Grosset, 1998: 153).

Pierre Hugo (1996: 216) argues that even though the drive behind affirmative action emanates from an awareness of reversing the injustices of apartheid, it is also in fact a mechanism promoted by policy makers. The reason for this being the recognition that the new black constituencies need to be pacified in order to contain their potentially volatile reaction, should their political demands for a better life not be addressed (Hugo, 1996: 216).

Although figures have increased, an illustration of the slow pace of change is that in 1993 alone approximately only 3% of middle-management positions were held by non-whites (meaning Africans, Coloureds and Indians), while the figure for those in top management was under one percent. As a means of increasing the pace of change, an organisation by the name of the Black Management Forum (BMF), established in 1993 and claiming to be the legitimate voice of black managers, drew up a policy document (Hugo, 1996: 217).

The aim of this document is to transform South African business organisations from discriminatory to ones that reflect the demographic composition and values of South African society as a whole. The way, in which they sought to ensure this, was by means of a quota system. They used the year 2000 as a target by which time all South African companies were expected to have the following percentages of blacks in their employ: 80% of all trainees; 70% of all supervisors; 50% of junior managers; 40% of middle managers; 30% of senior managers; 20% of executive directors and 30% of non-executive directors (Hugo, 1996: 217). These recommendations have now for the most part, become standard operating procedure in most large South African companies.

For every action however, there is a reaction. Although this policy has its heart in a morally correct place by aiming to correct the imbalance in terms of numbers, it creates new problems. Problems that may affect both the employee and the employer. Since blacks may feel entitled to jobs and quotas, it leads to competition on an unequal basis; it may lead to a reduction in company standards due to firms being forced to employ a set number of affirmative action candidates; blacks may be used as tokens i.e. they may be employed merely to show society that blacks are being employed by the organisation; quotas can also be seen as an expense similar to welfare, not as an investment, since workers lacking skills are in overpaid jobs; this also relates to the fact that quotas can have a stigmatising effect on workers who have the skill to do the job properly (Grosset, 1998: 157).

From the above discussion one may conclude that the implementation of affirmative action and the quota system may serve as yet another impediment to foreign investment and as such it poses a certain amount of risk to the potential investor as well. Since foreign companies are under pressure to comply with the quota system, at times having to employ incompetent workers, they exercise their freedom of choice and choose not to invest. Reason being that even though they may comply with legislation, they lose out in the end since lack of education means lack of knowledge leading to lower productivity and therefore inevitably also to lower profits. The quota system can therefore definitely be regarded as being a disincentive for investment.

3.7.6 *The Impact of Mass Action and Demonstrations on Investment Perception*

The Labour Relations Act of 1995 entrenches the right to strike, encourages sectoral and enterprise bargaining and also clarifies the law on unfair dismissals and information disclosure. It also introduced workplace forums and new mechanisms for dispute resolution (The South African Yearbook, 2000/01). All employees now have a statutory right to strike, once mediation has failed or a 30-day "cooling off" period has elapsed, and as long as 48-hours written notice has been given. However, strikes are illegal if prescribed by the terms of a collective agreement or if caused by a dispute over a contract interpretation or dismissal. Similarly, strikes by essential service workers are unlawful, as are strikes by maintenance workers where serious damage would follow from the withdrawal of their services e.g. ventilation and drainage in a mine, etc. (Wood, 1998: 90).

The fact that strikes and mass protest have an adverse impact on the economy, goes without saying and the prevalence of strikes also add to the negative investment perception of the country. Research shows that the cumulative number of man-days lost due to strike action rose from 2.3 million in 1998 to 3.1 million in 1999. Although there was a significant increase in 1999 from 1998, it is still below the levels experienced during the late eighties and early nineties in the period before the first democratic election. The majority of strike action in 1999 was high profile in nature, wage-related, and marked by heightened levels of emotion. The protracted wage dispute in the public sector involving the South African Democratic Teachers Union, the national Department of Education, the Health and Allied Workers' Union and the Police and Prisons Civil Rights Union, which culminated in national demonstrations and strikes in July and August 1999, accounted for 60,9% of the total number of man-days lost (The South African Yearbook, 2000/01; Macun, 2000: 99).

The transport sector accounted for 13.1% of the total largely as a result of the national wage strike that occurred in April of that same year, involving both the SA Bus Employers' Association and Transport and General Workers' Union. Wage strikes involving the South Post Office, Telkom and Communication Workers Union in August and September accounted for 9.3% of the total. The mining sector and the National Union of Miners (NUM) followed at 7% as a result of wage strikes at various gold and coalmines and a dispute at Oryx Gold-mine over the issue of retrenchment. The retail sector accounted for 2.9% of the total (The South African Yearbook, 2000/01; Macun, 2000: 99).

The major strike trigger was wages, which accounted for 97,2% of the total number of man-days lost (or 80% of the number of strikes), followed by retrenchment (1,9%), dismissal or discipline (0.6%) and grievance (0.2%). During 1999, 28% of strikes exceeded 10 days, compared with a figure of 42.1% in 1998. There was also a decrease in the number of strikes involving 1000 or more workers (46%) compared with 1998(65.8%) (The South African Yearbook, 2000/01). Even though and it has to be noted, that there has been a significant decline in the number of strikes or mass demonstrations occurring, as well as a decline in the number of participants, the impact that they do have and the perception that they do create, should not be underestimated. The fact that workers do have a right to strike and demonstrate, shows that South Africa does have a working democracy in place, yet the frequency with which they occur could eventually lead to the country's economic detriment. This is due to the impact that frequency of strikes has on a country's potential as a location for possible investment. Investment perception is undoubtedly influenced by labour mass action, since minimal risk is what most investors are after.

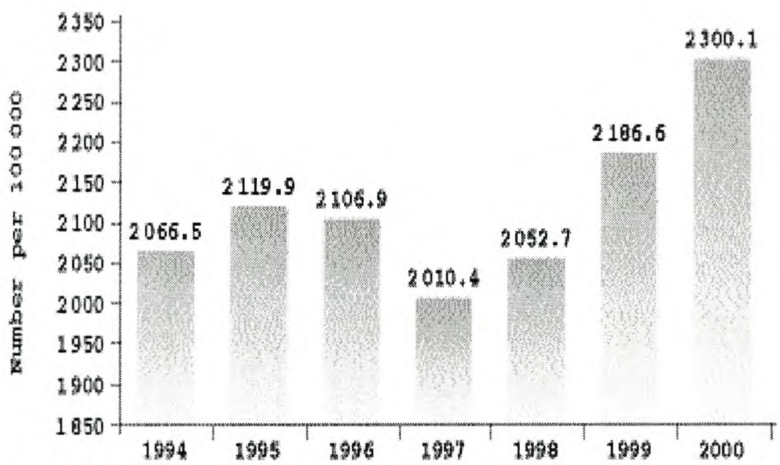
3.7.7 *The Challenge of South Africa's High Crime Rate for FDI*

At a global level, South Africa has the highest rate of violent crime. In 1999, a third of all crimes recorded by the police were violent. In the United States, considered to be a relatively violent society, 15% of recorded crimes were violent, while in Britain; the figure was only 6%. South Africa's international image has also been tarnished by crimes. The country has been rated by some international organisations as one of the most unsafe places to live in. Partly due to the lack of safety, some international investors are hesitating to invest their money in this country, which is full of natural resources. Crimes also add fuel to the spreading brain drain. An estimated 25, 000 professionals are now leaving South Africa annually in order to find better-paying jobs and enjoy a peaceful life free from crime. Research shows that the cost to South Africa with regards to the brain drain amounts to approximately 2.5 billion rand a year (Xinhua News Agency, 2001:1).

South Africa's high crime rate is a problem not only for South Africans, but also for potential investors as well as having to deal with a host country that is plagued by crime, increases their investment risk that much more. The more affluent and higher educated South Africans seek greener pastures, so to speak, having become despondent with the current state of affairs and seeing no light at the end of a very dark tunnel. Arguably, they are the fortunate ones; they move away because they can, it is the ones who stay who suffer the most. Firstly the majority of them have very little or no education therefore not being very marketable on the labour market. Secondly, they are also the ones who suffer the most due to lack of investment, since most times, foreign investment accompanies job creation. Therefore a high crime rate has a negative impact on both the citizens of a country and the potential investors who wish to invest in a particular country.

Figure 2:

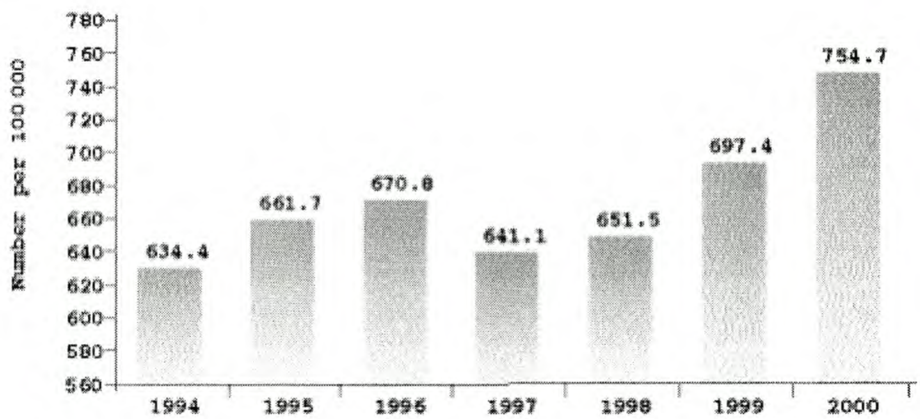
Number of crimes recorded per 100 000 of the population, January to May 1994 –2000



(Source: SAPS Crime Information Analysis Centre (CIAC))

The above is a diagrammatical representation illustrating the increase in the crime rate in South Africa from 1994 to 2000. This period is significant in that it also encapsulates the years in which South African elections took place i.e. 1994 and 1999 and the years immediately after the elections i.e.1995 and 2000. Furthermore it indicates that measured on a per capita basis (per 100 000 of the population) for the periods January to May every year from 1994 onwards, crime levels were at their lowest in 1997 and at their highest in 2000 (refer to figure: 3). From January to May 2000, some 2 300 crimes were recorded for every 100 000 people living in South Africa. The crimes included below cover the twenty most serious and prevalent crimes recorded by the police. They account for over 99% of the volume of all serious crime recorded by the police (Nedbank ISS Crime Index, 2000).

Figure 3:
Number of violent crimes recorded per 100 000 of the population, January to May 1994 - 2000



(Source: SAPS Crime Information Analysis Centre (CIAC)

The above diagrammatical representation indicates that measured on a per capita basis, the greatest increase in recorded crime since 1994 occurred between 1998-99 (6.5%), followed by 1999-2000 (5.2%). The first five months of 2000 show the highest per capita level of violent crime: murder; attempted murder; rape; and all forms of robbery and assault, for the same five months period from 1994 onwards (refer to figure: 3). In the period from January to May 2000, just fewer than 755 violent crimes were recorded per 100 000 of the population, compared to 697 per 100 000 in the same period in 1999 (Nedbank ISS Crime Index, 2000).

Reducing crime is one of the leading challenges of South Africa's democratic government. In 1999, the government implemented policy and developed a strategy to enhance national crime combating capabilities. While this strategy has had some success in impacting on organised crime, the statistics suggest that the initiatives are still to have an impact on crime reduction in general. Crime remains a priority concern, which continues to breed insecurity and impede investor confidence.

3.8 *Conclusion*

This chapter started with a discussion of the role of and impact of trade unions in South Africa. It was found that their past role in the transition to democracy cannot be underestimated and more importantly, neither should their future role in the country with regards to the labour market be underestimated either. Aside from investment, the economic growth within the country is dependent on a variety of factors, the backbone of which is the South African labour market. As the above discussion indicated, South Africa continues to face the challenges of unemployment and job creation, education and training, levels of productivity and arguably, the most pressing problems continue to be that of the HIV/AIDS pandemic and the impact it will have on the South African labour force as well as South Africa's record high crime rates. Should a serious address of the above-mentioned challenges not occur, South Africa will continue to lag behind in foreign investment and only continue to have a shaky hold over the meagre investments it now receives.

The aim of this study is too investigate reasons why South Africa is not receiving substantial amounts of foreign investment and to find ways in which the country might improve on its current investor perception. This is what the preceding discussion attempted to answer, by highlighting the current problematic points currently present within the South African labour market. Having highlighted the problematic areas also then serves as a point of departure for finding solutions to the current state of affairs. The next part of this paper will be a chapter focussing on Nigeria. Specifically Nigeria as being one of the African countries that continue to receive substantial amounts of foreign direct investment, much more than South Africa, despite the fact that it seemingly poses more of a risk than South Africa. The next chapter will discuss aspects of the Nigerian political and economic sectors, in relation to that of South Africa. Initially however, focus will first be solely on that of Nigeria.

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Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter Four: The Nigerian Labour Market and its Impact on Foreign Investment in Comparison to South Africa

4.1 *Introduction*

The relationship between South Africa and Nigeria is definitely not an arbitrary one. Nigeria's change from a military dictatorship to a democracy in 1999 resulted in South Africa's gaining an ally in Africa. Regarded as two of Africa's largest economic power- houses, vibrant political and economic relations between the two countries are essential. The link between the two countries has further been strengthened by the role the respective heads of state have undertaken in promoting Africa's latest economic plan i.e. The New Partnership for Africa's Development (NEPAD), since President Olusegun Obasanjo of Nigeria and Thabo Mbeki of South Africa, have taken it upon themselves to be the main spoke persons for the plan. These are the more recent relations between the two countries, they do however, share past relations. Illustrated by South Africa's support for Nigeria's transition to democracy as well as Obasanjo's personal ties to South African leaders. A relationship which stems from the mid-1980s when Obasanjo co-chaired the Commonwealth Eminent Person's Group in pursuit of a negotiated transition from apartheid to majority rule. Also after his release from prison, after having been detained for political reasons, Obasanjo's first stop while on tour was South Africa, to brief leaders on developments in Nigeria (Kornegay, 1999/2000: 65).

Furthermore, South Africa's economic relations with Nigeria are stronger and better established than its relations with other West African countries. A bi-national commission was set up in 1999 to govern relations between the two countries. Also, a legal framework, the Investment Protection Agreement (IPA), has been put in place to facilitate investment between the two countries. It is also probably not surprising then that there is a degree of convergence in the foreign economic strategies that have been adopted by the administrations of the government of the two countries. The policy directives of both governments have stressed the necessity of attracting foreign investment, combating corruption, promoting accountable governance and good governance practices, privatizing state and public enterprises, and strengthening the capacity of law enforcement agencies (Voges, 2001/ 2002: 329).

The aim of this chapter is to provide a brief but thorough illustration of the current situation in Nigeria pertaining to the Nigerian labour market in relation to and comparison with the labour market in South Africa. Focusing on the labour market and all of the factors that pertain to it is essential in this chapter as it was in the last. Placing the labour market in context helps one to better understand the level of or in some instances, the lack of foreign direct investment in the country as well as the level of political risk. This is due to the fact that a perceived defective labour market necessarily means an increase in risk for potential investors.

4.2 *Historical Background of Nigeria*

The country of Nigeria came into existence in 1914, when two British colonial protectorates were amalgamated into one territorial unit. This act brought together hundreds of distinct ethnic and political groups. The country gained its independence in 1960. Since then it has been ruled primarily by military dictatorship. The most repressive regime was the one of General Sani Abacha (1993-1998). With Abacha's death in 1998, General Abdusalami Abubakar took control for a short period and allowed elections to proceed. Although it was acknowledged that there had been widespread fraud during the elections, the pressure to transition Nigeria to so-called democratic rule was so great, that the elections' result were certified by international observers. On May 29, 1999, former General Olusegun Obasanjo became Nigeria's first civilian president since 1993 (Ikein, 1998: 35; Osaghae, 1998: 50).

Nigeria is an important country in West Africa because it accounts for 47% of the region's population and 43% of regional Gross Domestic Product (GDP). Democratic Nigeria is West Africa's hope for economic and political recovery, but the country's unpredictable and oscillating internal politics continue to be an impediment not only to itself but also to the continent as a whole. Nigeria is a poor, heavily debt-ridden and ethnically divided country, despite its oil-producing wealth. Furthermore, factors such as under-employment, technological backwardness and low productivity output contribute to the country's woes. Nigeria also has a serious problem with its lack of functioning infrastructure these include transport, telecommunications and electricity

(Ero, 2000/01: 189; 191). Nigeria also continues to remain an ethnically and religious divided country.

4.2.1 *Ethnic Tension Within Nigeria*

Nigeria is a country with approximately 300 different ethnic groups, each with its own language, culture, customs and traditional forms of government. Even before independence, politics has been dominated by the three majority groups the Yoruba, who are predominant in the west, the Hausa-Fulani, in the north, and the Igbo, in the south. With the result being that many minority communities of the Niger Delta feel they have been excluded from political participation and the economic and social benefits enjoyed by dominant majority groups (Durotoye, 2000:8).

Nigeria's transition from military to democratic rule has not been accompanied with political stability. Instability continues to stem from ethnic, religious and resource matters. Arguably, the largest obstacle to a thriving Nigerian democracy continues to be the ongoing religious and ethnic divisions. Tension has also further been fuelled by the introduction of the Muslim judicial system, Sharia, in some parts of the Northern states (Durotoye, 2000:7; Ero, 2000/01: 192).

As a result of the highly factionalist nature of the political elites in Nigeria, ethno-regional conflicts have been at the heart of the country's politics. It has been argued that what is currently at stake, is a "balance of forces" due to the fact that old northern elites are weighing up their gains and losses under a southern-based political control. Linked to this is the fact that Obasanjo's ties with the military as well as the support of the northern elites ensured his election victory in 1999. The tension however, comes in with the fact that Obasanjo's main political supporters are in the south, predominantly among the Yorubas with the result that the north now perceive their political base to be under threat (Ero, 2000/01: 192).

4.2.2 *The Volatile Niger Delta Region*

The Niger Delta, one of the world's largest wetlands, and the site of most of Nigeria's biodiversity, housing approximately fifty to one hundred different linguistic and ethnic groups, is also the area where the main oil reserves are found. Not surprisingly therefore, it is also the region experiencing the greatest tension. Clashes arose during the 1990s with numerous groups challenging the federal, state, local government and multinational companies over the distribution of oil revenues. Competition for resources has become intense, coupled with the feeling of ongoing marginalisation and poverty among the different ethnic groups, has resulted in frequent communal conflict becoming the norm (Ero, 2000/01: 193).

Having no alternative therefore, government was forced to seek a solution to the continuing conflict. A solution manifested itself in a bill being passed by government, namely, the Niger Delta Development Commission (NDDC). This bill promulgates the implementation of certain projects to facilitate development in the region that produces up to 90% of the country's foreign earnings. In addition to this bill being passed a clause in the constitution stipulates that at least thirteen percent of oil revenue will be allocated to states where oil is produced (Ero, 2000/01: 193).

4.3 *The Nigerian Labour Market*

As in the case of the discussion of the South African labour market, an understanding of union activities can facilitate analyses of recent economic changes in Nigeria. Furthermore it also contributes to a broadly comparative assessment of organised labour's role in the processes of democratic transitions. Again as was seen in the South African case in the role in which COSATU played in the democratic transition.

4.3.1 *The Labour Market During Military Rule*

When President Babangida voided the presidential elections of June 1993 and postponed indefinitely the redemocratisation process, the Nigeria Labour Congress organised and directed several large strikes and protests that crippled major urban centres. Also, despite having been weakened due to Nigeria's economic crisis, the labour movement has continued to be the largest autonomous interest group in Nigerian politics since the start of military rule. Furthermore a discussion on labour movements is also essential in that the degree to which labour movements are included in the re-democratisation process, often affects the level of political stability of post-reform regimes. (Tuman, 1994: 27). It should however, at the start be noted that an absence of research on Nigerian workers and unions does exist due to the fact that since the early 1980s, there have been few, systematic studies of labour and management in Africa.

Unions and organised workers in Nigeria have generally faced an uncertain political climate in which to operate. Especially heightened during the military regime between the periods of 1985 and 1986, the National Economic Powers Decrees permitted the state to intervene in the internal affairs of unions and the Nigeria Labour Congress (NLC), to restrict and ban worker protests, to decertify some militant unions, and to limit strike actions (Tuman, 1994: 32). Similarities therefore exist between the Nigerian labour movement during this particular period and their South African counterparts during the apartheid era since they too experienced the restriction on worker mobilisation and mass protest.

Research also shows that during this period a strong correlation existed between the emergence of the oil boom and the tendency toward increasing worker militancy during the 1970s. This trend continued well into the early 1980s, including the first years of the economic crisis. An illustration of this occurs in the period stretching from October 1979 to March 1983 when an average of approximately 200 strikes per year occurred. During the post 1983 period there was a significant reduction in both the number of workers participating in strikes and the number of days lost to industrial disputes. On closer inspection however, this should not be regarded as being surprising since this period reflects the increasingly inhospitable environment in which unions have had to bargain. Influenced by factors such as the threats of plant closure, employer lockouts as well as unemployment (Tuman, 1994:33).

Not all the workers conformed to the pressure placed on them by government though. Workers organised in strategically important sectors of the economy have generally adopted more militant bargaining strategies. This fact is illustrated particularly in the oil sector, since the country's continuing reliance on foreign exchange earned from oil exports has rendered it vulnerable to disruptions in crude oil production. The National Union of Petroleum and Natural Gas Workers (NUPENG) as an example, was successful in resisting cutbacks and wage reductions proposed by the Nigerian National Petroleum Corporation in 1983 and 1987. Oil workers have continued to be strike prone. Between 1990 and 1993, a number of successful strikes occurred. In November 1992, workers shut down the Warri refinery just prior to the beginning of the holiday season. Since this refinery provides a large share of Nigeria's domestic fuel supply, managers were forced into negotiating a settlement that was favourable to the union (Tuman, 1994: 34).

The Nigeria Labour Congress (NLC) first emerged in 1975 as the result of a merger between several national and regional trade union confederations. The government formally disbanded the NLC in 1976 and although it was reconstituted by the state, it was re-organised. The re-organisation efforts had a radical effect on the structure of the unions since the existing 1,200 unions were reconstituted into 42 national unions (Tuman, 1994: 36).

4.3.2 *The Labour Movement In Present Day Nigeria*

To a significant degree, Nigerian labour has been excluded from participation in the reform process. The leadership of the Nigeria Labour Congress (NLC), therefore, has had little choice but to test the limits of authoritarian rule by protesting and engaging in other forms of collective action.

The Constitution promulgated in May 1999, gives all citizens the right to freely assemble and associate and to belong to any political party, trade union, or any other association for the protection of their interests. However, the armed forces and employees designated as essential by the Government may not join trade unions. Total union membership is approximately 4 million. Approximately 10 percent of the total work- force belongs to unions. The agricultural sector, which employs the bulk of the work force, is not unionised. Most of the informal sector and practically all the small businesses remain non unionised (Executive Report on Strategies in Nigeria, 2000: 51).

The Nigerian state has also fallen victim to many occasions of labour actions through strike actions, protest marches, etc. The Nigerian Labour Congress had to embark on a protest march to Aso rocks, the seat of power, in January 2000 to protest the planned deregulation of the oil price. The Petroleum and Natural Gas Senior Staff of Nigeria (PENGASSAN) and the National Union Of Petroleum and Natural Gas Workers' Union (NUPENG), which brought the country to a standstill in 1993 when they went on strike for 8 weeks, went on strike again in March 2000 leading to a scarcity of oil products for a few days (Durotoye, 2000: 6-7). In April 1999, all primary and post-primary schools nationwide were shut down following a prolonged strike action ordered by the Nigeria Union of Teachers, again in protest over nonpayment of wages (Executive Report on Strategies in Nigeria, 2000: 51).

The most recent strike action occurred in January 2002 when the Nigeria Labour Federation launched an indefinite general strike to protest an 18 percent jump in fuel prices imposed at the start of the month. The Obasanjo government argued that the increase was necessary to stimulate private investment in Nigeria and bring an end to fuel shortages. The problem stems from the fact that even though Nigeria is the sixth largest crude oil exporter in the world, the country does not have the refineries to process its own oil, so it is forced to import gasoline to serve the population. Government subsidises the price of gasoline that has been imported, fixing the price at below a dollar a gallon, which is very cheap on an international scale. However, in Nigeria, where two-thirds of the population earns less than a dollar a day, it still remains quite expensive (Edwards, 2002: 1).

Being a fellow African country, Nigeria and South Africa share many labour market ills that increase the investor perception of them as an investment risk cite and so impedes the level of foreign investment received by them. Like most African countries both South Africa and Nigeria suffer from high levels of unemployment, a lack of formal education which prevents the development of manpower and expansion of the labour pool, poor levels of labour productivity, the AIDS pandemic as well as mass action in the form of strikes and the impact it has on the economy.

South Africa also exercises a form of government intervention in the form of affirmative action, this is not so prevalent in Nigeria where it has to some extent been implemented to make organisations more representative of the various tribes, especially the three dominant ones, religious representatively i.e. as far as possible equal amounts of Christians and Muslims has also been emphasised. What Nigeria does have however, and extensively so, is a problem with corruption. So much so, that it has on various occasions been recognised as the most corrupt country. This title does not bode well for its investor perception.

This fact has however, not dissuaded the big oil companies from investing in Nigeria since some of them have been involved in corruption cases i.e. "buying" certain officials in order to gain unhampered access to the oil fields. Each of the labour market ills that Nigeria suffers from will now be discussed as well as compared to the situation of the particular labour market issue in South Africa.

4.3.3 *Unemployment and Productivity in the Nigerian Labour Market*

The unemployment rate as defined in the previous chapter is, the percentage of the labour force that is willing to work, but are unable to find jobs. No matter how one defines unemployment, the underlying philosophy is that some people are without jobs.

Within the period, 1980-1986, the year 1983 was particularly bad. The country's unemployment rate was 10.2 percent. Specifically, between 1980 and 1986, the country's annual average unemployment rate was 7.8 percent. During the period, 1987-1993, the annual average unemployment rate stood at 4.2 percent (Gbosi, 1996: 5-6).

The unemployment situation deteriorated during the first half of 1999. Available data showed that the National unemployment rate was 4.1% in March of 1999, and estimated to rise to 4.7% in June of 1999 as against the rate of 3,9% in the corresponding period of 1998. The Urban unemployment rate rose from 5.5% in June 1998 to 6.5%. Similarly, the rural unemployment rate stood at 3.9% as against the 3.5% in the corresponding period of 1998. The unemployment situation was further exacerbated by the non- implementation of employment boosting policy measures contained in the 1999 Budget. Furthermore, private sector employment generation capacity was constrained by structural bottlenecks, including frequent power shortages, infrastructural inadequacies and scarcity of petroleum products (Nigeria Employment and Labour, 2002:2).

In South Africa, about 4,5 million people, representing 37,6% of an economically active population of 12,1 million, were unemployed in 1997. This shows a significant increase from the 1995 level of 29,2% (Naidoo, 1998: 39). According to Statistics South Africa's Household Survey of October 1999, using the strict definition, the unemployment rate was 23.3%. Reflecting a 4,0% increase i.e. from 19,3% in 1996. Whereas using the expanded definition, the unemployment rate was 36,2%. This reflects a 3,2% point increase over the 1996 figure of 33,0% (Statistics South Africa, October Household Survey, 1999). South Africa, like most other developing countries, has no accurate register of unemployment, therefore it seems that official statistics reflecting the unemployment rate is to some degree, somewhat inadequate.

Similarly, the unemployment rate of Nigeria should also be interpreted with caution, as evidence abounds that unemployment loomed larger than indicated. Like most statistics, unemployment statistics in Nigeria are not well documented. To a large extent, statistics from the remote rural areas are apparently not available. If these statistics were included, the unemployment rate would have been much higher than those presented by government officials. Yet even if the official unemployment rate is accepted, the problem of underemployment in Nigeria still persists (Oni, 2000: 3).

South Africa too, suffers from underemployment. In the South African economy there is underemployment since there is an oversupply of unskilled workers for which there is a lower demand and an undersupply of skilled workers, for which a higher demand exists (Grosset, 1998: 127; Mohr, 1998: 80-89).

Nigeria's productivity growth affects the Nigerian standard of living. There are three ways a country can increase the productivity of its resources. It can improve the public capital that enables the private economy; it can raise the quantity and quality of its business capital investment and it can improve the quality of its human capital. With regards to business investment, successive governments have presided over increasingly huge deficits driven by corruption, fiscal indiscipline and low tax collection, this has created significant disincentives to private savings (Oni, 2000: 3).

In South Africa on the other hand, strikes have become a feature in the South African economy and they necessarily mean lower productivity due to a substantial loss of working hours. It has therefore been argued that an increase in productivity necessarily implies an increase in the size of the South African economy and it would therefore also lead to a reduction in unemployment. Research shows however, that South Africa does in fact have rising labour productivity, even though employment is still on the decline (Naidoo, 1998: 60).

Nigeria's labour market productivity is further hampered by ethnic and religious tension and crises still inflict a large hidden economic cost in constraining capital inflows. Also, though the present government has made moves towards transparency and a clampdown on corruption, a framework of systems and processes that embody this desired level of transparency still needs to be built and reinforced across government departments (Oni, 2000: 3).

As for public capital, the deficit laden federal government was too broke to sustain any long-term capital spending on infrastructural projects. There is also Nigeria's huge debt problem. Nigeria is yet to make a credible case for membership of the HIPC (Highly Indebted Poor Countries), even though membership seems unlikely at present, the country does need a significant mixture of debt restructuring and debt forgiveness to ease the burden of debt servicing. Focusing on human capital, it becomes evident that the tragic disinvesture in education and the brain drain phenomenon – both of which surged in the late 80s through the 90s- are now showing up in the country's productivity growth rate (Oni, 2000: 3). Thus the collapse in the quality of education and access to education has probably had the most far reaching consequence and is likely to be the most difficult to reverse (Oni, 2000: 3).

South Africa also suffers from the brain drain phenomenon. In South Africa the two primary instigators for the huge numbers of qualified South Africans leaving our shores is the high crime rate as discussed in chapter 3 as well as better financial rewards overseas.

4.3.4 *The State of Education in Nigeria*

The dilapidated nature of the education sector in present day Nigeria has been blamed on the many years of military misrule. There is the common feeling that the military neglected the universities because of their opposition to military rule. Yet, with the re-emergence of civil rule the nation's educational institutions still leave a lot to be desired.

Nigeria has experimented with some educational programs, which has only served as mechanisms with which to transfer money to the corrupt political leaders and their cronies.

An illustration of this was when the nation launched the Universal Primary Education (UPE) in 1976, but as noted, the programme failed due to lack of funds necessitated by corruption. Government has also reported that the falling standard of education in Nigeria is caused by the shortage of qualified teachers in the primary school level. It has been estimated that approximately 23% of the teachers employed in the nation's primary schools do not posses the Teachers' Grade Two Certificate. This ties in with the report of UNICEF's state of the world's children report for 1999. This reported highlighted that approximately four million Nigerian children have no access to basic education, and even the few that do have access are given sub-standard education (Dike, 2002:2).

The Constitution's general provisions call for the Government, to provide free, compulsory, and universal primary education. Yet, despite the President's commitment to compulsory education, compulsory primary education rarely is enforced. Research shows declining school enrollment due to continuing deterioration of public schools and increased economic pressures on families. The lack of sufficient primary school infrastructure has ended some families' access to education, forcing them to place children in the labour market (Executive Report on Strategies in Nigeria, 2000: 56).

Statistics show an illustration of this, it has been estimated that 2,015 primary schools in Nigeria have no buildings of any type. Classes are held under trees, this leaves the quality of education that is received in these conditions in serious doubt. Despite this worrying statistic, the Nigerian government still allocates less money to the educational sector when compared with other less affluent African countries. This is illustrated by the percentage of gross national product (GNP) spent on education. In comparison with Angola (4.9); Ivory Coast (5); Ghana (4.4); Kenya (6.5); Malawi (5.4); Mozambique (4.1); Tanzania (3.4); Uganda (2.6), Nigeria only spent 0.76% of its GNP on education, in comparison with the above-mentioned countries, South Africa spent the largest percentage of its GNP on education i.e. 7.9% (Dike, 2002: 3-4).

The above statistics illustrate how insufficient Nigeria's allocation to the educational sector has been. It also illustrates the high priority given to education in South Africa even though South Africa still struggles to provide equal and adequate education to all its citizens. Reasons for this abound, in many rural areas in South Africa there is a severe lack of infrastructure to accommodate schools, schools are also situated a distance from where people live and children are only able to get there on foot, there also continues to be to many students in classes with one teacher, making effective teaching extremely difficult and last but certainly not least, South African teachers are dying off due to the aids pandemic, again, a problem faced by most African countries. Nigeria has to change her value system and invest in education, which remains the intellectual laboratory of any nation.

4.3.5 *The Impact of AIDS in Nigeria*

Nigeria is sitting on a ticking AIDS time bomb. Officially, the rate of HIV infection in Nigeria is about 5.4 percent. In reality, the estimated 3 million Nigerians living with HIV/AIDS are bigger than the population of many African nations. In Nigeria's AIDS hot spots, mainly in the urban centers, the prevalence rates range from 15 percent among the adult population to 20 percent in pregnant women. AIDS will have a detrimental impact on the labour market in Nigeria, since at present the infection rate is estimated at being 70 percent among adults ages 20 through 39 (Akukwe, 2001: 1).

Nigeria, more than most African countries, presents a perfect comfort zone for AIDS for numerous reasons. Nigeria has one of the highest rates of unsafe blood transfusions in the world, at 14 percent. In some hospitals in Nigeria, 60 percent of blood transfusions may not undergo internationally acceptable screenings. The culture of silence and stigma about AIDS is widespread in Nigeria. Since although the UN estimates that 1.7 million Nigerians have died of AIDS, hospitals still do not identify AIDS-related illness as the cause of death on death certificates. This culture of silence extends even to the estimated 971,472 Nigerian AIDS orphans (Akukwe, 2001: 2).

Poverty is endemic in Nigeria, with nearly 70 percent of the population living in poverty. Poverty in every country as in South Africa is the Achilles' heel in the fight against AIDS since it thrives and wallows in poverty-ridden communities. Nigeria also continues to be crippled by its debt burden, spending $1.5 billion in debt repayments in 2001 alone. The UN has also identified the lack of political will as being a serious impediment to the fight against AIDS, this is illustrated perfectly in Nigeria, since the politicians rarely reach consensus on anything. The rate of infection in the powerful military is reportedly also on the increase. The Economic Commission for Africa (ECA) estimate that 15-20 percent of Nigerian soldiers live with HIV/AIDS (Akukwe, 2001: 2).

The UN and other multilateral institutions identify poor healthcare infrastructure as a major stumbling block to the various floating plans to supply AIDS drugs and other essential medicines to African nations. Nigeria's chronic struggles with other basic infrastructure such as road networks, water supply, sewers, sanitation, electricity and telephones, etc. complicates any potential international relief effort. Another impediment to the fight against AIDS is the fact that the local system of government in Nigeria is weak and incapable of implementing effective community-based AIDS prevention and treatment programs. As a result, very little community mobilization against AIDS has taken place in Nigeria. If the present trend of infection is not reversed, and with one in five Africans a Nigerian, 75 million Nigerians will likely be HIV positive or dying of AIDS. As discussed and illustrated in chapter 3, South Africa, also has one of the fastest growing HIV epidemics in the world. Estimates of the national HIV prevalence for the years 1990 to 1998 show a steady increase from 0.7% in 1990 to 22.8% in 1998. This indicates an increase of more than 30 times from the beginning of the epidemic. Levels of HIV infection vary across different geographic regions in South Africa. Of the nine provinces, Kwazulu/Natal continues to be the province with the highest prevalence, which showed an increase from 19.90% in 1996 to 32.5% in 1998, but no further increase in 1999. In contrast, the Western Cape, whilst remaining the province with the lowest level of infection, shows a 36.5% rate of increase from 5.2% in 1998 to 7.1% in 1999 (Department of Health of the Republic of South Africa).

The epidemic potentially represents the biggest threat to the corporate existence of Nigeria since it can trigger violent struggles for the control of national resources as families and communities collapse from the untimely deaths of its most promising citizens (Akukwe, 2001: 3). South Africa also already faces a looming crisis with the epidemic killing off the economically active population at an astounding rate, the huge number of teachers also dying of the disease, the increasing expense for caring for infected people and last but not least, the increasing number of orphans as a result of the AIDS pandemic.

4.4 *The Impact of Corruption On Nigeria*

Mention the words "corruption in Africa" and the first country that would spring to mind is probably Nigeria. Mention Nigeria and the response would most times be "what form of corruption is presently taking place?" Nigeria has become synonymous with corruption and with good reason too.

Corruption is closely linked to the absence of citizens' influence and oversight and to unresponsive and irresponsible political leadership. Corruption has been somewhat narrowly defined as being the abuse of public office for private gain. Personal corruption is motivated by personal gain while political corruption is motivated by political gain. A distinction my also be made between individual corruption and institutional corruption. State corruption refers to criminal or otherwise unlawful conduct by government agencies, or by officials of these agencies acting in the course of their employment. Corruption is both a symptom and an outcome of poor governance and as such it undermines development (African Development Report, 2001: 118).

In Nigeria corruption is known to be rife, pervasive and deeply entrenched. To most outsiders, Nigeria conjures up images of rampant corruption, business fraud and nepotism. Corruption is not just endemic but an integral part of the social fabric of life in Nigeria. It had in the last decade, especially under the military regimes, increased to the extent that it began to be asserted that in Nigeria, " it is not simply that officials are corrupt, but corruption is official" (African Development Report, 2001: 119).

4.4.1 *Unsuccessful Past Reform Measures to Combat Corruption*

Attempts were made to rid the country of corruption without much success. The first attempt to rid the nation of corruption was the termination of appointment and administrative purges. This was illustrated by the massive purge of the public service in 1975 in which over 10,000 public servants lost their jobs for corrupt activities, inefficiency and ineffectiveness. A second strategy was the setting up of anti-corruption boards, commissions, etc. Third was the attempt to locate the root of corruption in politics and the antics of politicians. The fourth main strategy was to situate corruption and the abuse of office within the larger problem of a general social moral vacuum, the remedy for which is some form of moral regeneration. The promulgation of a Code of Conduct and the principle of public accountability for public officers was another anti-corruption device (African Development Report, 2001: 119).

In spite of the various crusades against corruption in Nigeria, the epidemic remains seemingly uncontainable. This is due to several reasons. First, a lot of the remedial actions of these regimes were backward looking and self-protective. The anti-corruption measures adopted by an incumbent regime in response to the corruption of its predecessors were often taken without touching its own. Seeing the splinter in your brother's eye, while forgetting about the log in your own. Second, government approach to the question of public accountability has mainly been ad hoc and non-institutional. Since the very institutions that were to promote public accountability were stifled by military decrees. Effective sanctions i.e. moral, social, political and legal – are an essential part of an antidote against corruption. Also, the quality of institutional structures that limit the temptation of elected leaders and bureaucrats will be the most effective anti-dote against corruption in Nigeria (African Development Report, 2001: 120).

4.4.2 *Dealing With Corruption In Present Day Nigeria*

With the transition to democracy new hope was also cultivated to sincerely attempt to stop the flow of corruption i.e. new brooms sweep clean. This hope has been spurred on by the fact that the first bill that was passed through parliament was the anti-corruption bill. This bill aims to end widespread corruption among officials and civil servants, also since the bill has been passed, the state-owned oil company NNPC has had to publish its accounts. The war on corruption has changed Nigeria's image abroad with the international community (African Development Report, 2001: 120).

South Africa's levels of corruption is nowhere near to that of Nigeria, although, corruption has been known to occur. Arguably, to a large extent, it is thanks to the ever present transparency of government that is constantly emphasised, which makes corruption that much more difficult to exercise. Transparency has a positive effect on investor perception as well. Investors know exactly where their money is being put into and with a country with a fairly low level of corruption, investment risk decreases that much more. With its high crime rate however, South Africa definitely gives the corruption in Nigeria a run for its money. South Africa's problem with crime is world renowned, having deterred both investors and tourists for a number of years. As discussed in chapter 3, at a global level, South Africa has the highest rate of violent crime. In 1999, a third of all crimes recorded by the police were violent. In the United States, considered to be a relatively violent society, 15% of recorded crimes were violent, while in Britain; the figure was only 6% (Nedbank ISS Crime Index, 2000). The crime rate as discussed therefore continues to have a negative impact on investment since it increases investor risk as well as on the citizens of a host country since it deprives them of potential investment.

4.5 *Nigeria and the International Monetary Fund*

Nigeria's relationship with the IMF has been more prominent and therefore arguably of more relevance than its relationship with either the World Band or the World Trade Organisation. The researcher has therefore chosen to focus predominantly on Nigeria's relationship with the IMF. Nigeria has had a fairly turbulent relationship with the IMF more so recently than ever before. In March of 2002, Nigeria announced a dramatic break with the IMF. This move could prove detrimental to Nigeria since the International Monetary Fund approval of Nigeria's economic policies is important to the country winning relief on its foreign debt that is approximated to be around $30 billion. The IMF criticised the Nigerian government's 2002 budget by saying that the proposed government's spending was too high and that it would aggravate inflation in the country. It is this criticism that has been cited as being the immediate cause of Nigeria's recent withdrawal from the IMF (Xinhua News Agency, 2002).

The implications of the government's decision to quit the IMF Standby Accord in March became evident on 3 July 2002, when the World Bank confirmed that the country would not qualify for any debt relief under the bank's Heavily Indebted Poor Countries (HIPC) programme. Even though the World Bank has said that the country's oil revenues enabled it to meet its debt repayments, its inability to meet the Fund's prerequisites on public spending prompted the decision (West & Central Africa Monitor, 2002: 2).

The conditions imposed by the IMF on Nigeria were the following: privatisation of public utilities; retrenchment of government workers; servicing of external debt; removal of subsidies in petroleum products; electricity; agriculture and foreign exchange; reduce government spending; free entry and exit of foreign capital. Nigeria's paying of the interest on its debt has also been prioritised, an amount which is estimated at being $3.1 billion each year. This means that government has to set aside 65% of the country's capital expenditure simply to service the debt. Thus the amount Nigeria would have to pay in interest over the next ten years would be almost equivalent to its present debt (Nigerian Marxist Journal, 2002: 2; Moser, 2002: 4; Owusu, 2000: 23).

By breaking away from the IMF, Nigeria finds itself in a predicament. On the one hand if the policies enforced by the IMF continue to be applied mass movement from below is a surety. Two general strikes and a wave of strikes involving practically every section of the working class are sufficient proof of this. On the other hand, sending the IMF packing has dire consequences. Since without an agreement with the IMF, it would be difficult for Nigeria to get a rescheduling of its debt. This ties in with the fact that Nigeria still has to pay its interest on its foreign debt. Consequently, if it does not get a rescheduling agreement then it has to pay up the full amount due and will not be able to get any further loans

(Nigerian Marxist Journal, 2002: 2; Moser, 2002: 4; Owusu, 2000: 23).

4.6 *Conclusion*

The aim of the above chapter was to highlight the current situation of the labour market in Nigeria. The role and impact of the labour market on foreign direct investment and investment risk has been pervasive throughout this study. This is due to the fact that the labour market is the backbone to a country's economy and therefore any change in any aspect of the labour market, necessarily has an impact on levels of investment. This chapter compared the labour market in Nigeria and South Africa and from the research it becomes clear that the two labour markets are quite comparable. The labour market in both countries suffer from similar problems i.e. unemployment or underemployment, lack of basic education, lack of labour productivity, the AIDS pandemic, the high crime rate and in Nigeria's case numerous accounts of corruption.

In focusing on the various policies that government has in place to promote foreign investment in chapter two and the problems which face the respective labour markets in the two countries under comparison in chapters three and four a foundation has been laid for the next chapter. The perception of political risk in both South Africa and Nigeria will be the focus of chapter five. As has been discussed earlier the perception of risk whether justified or not has a tangible impact on level of investment received. Taking into account the various factors discussed in the preceding chapters, a model illustrating the levels of political, economic and social risk in both countries respectively, will be sketched and discussed.

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Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter Five: Evaluating Political Risk in South Africa and Nigeria with the Aid of a Model

5.1 *The Relevance Of A Model Within The Field Of Political Risk*

In this chapter the various models and methods of measurement that relate to the field of political risk analysis will both be described and discussed. With this as a foundation the researcher will evaluate the level of risk both South Africa and Nigeria pose for the potential investor. This evaluation will manifest itself in the form of a political risk model that will make use of numerous risk indicators that have been discussed in previous chapters.

The Reader's Digest universal dictionary defines a model as being the following: 1) *A preliminary pattern or representation of an item not yet constructed, serving as the plan from which the finished work, usually larger, will be produced;* 2) *A tentative framework of ideas describing something intangible and used as a testing device.*

One of the most simplistic definitions that Michael Pidd (1998: 13) borrows from Ackoff and Sasieni, 1968, states that *"a model is a representation of reality"* Pidd argues, and rightly so that even though this definition is attractive due to its simplicity it is also extremely deficient. It is deficient in the sense that even though it says what a model is, the possible reason why a model may be necessary, is not addressed. The fact that a model has a specific use is alluded to in the definitions given by the Reader's Digest dictionary i.e. "serving as a plan" and "used as a testing device"

Pidd (1998: 13) elaborates on the above definition incorporating the fact that a model has to have some or other use, thereby redefining it, as "*a model is a representation of reality intended for some definite purpose.*" This purpose, for which the model is necessary, is inevitably to help someone or an organisation gain greater clarity about a possible future outcome. Pidd (1998: 13) therefore takes this definition further by stating, "*a model is a representation of reality which is intended to be of use to someone charged with managing or understanding that reality.*" Pidd (1998: 13) criticises this definition as being too exclusive i.e. that models will only be of use to people in the upper echelons of an organisation. In revising the above definition he therefore states "*a model is a representation of reality intended to be of use to someone in understanding, changing, managing and controlling that reality.*" (Pidd, 1998: 13).

Having taken into account all the above definitions it still has to be noted that a model remains a simplification of reality and as such it has inherent limitations. Despite this however, it should also be recognised that their usefulness lies within their approximations and therefore being exact is not important since it is not a prerequisite for them to be useful (Pidd, 1998: 18).

Models do however act as a means in which to manage risk and uncertainty (Pidd, 1998: 29). It is therefore not surprising that they have become a prominent feature in the field of political risk analysis. When applying the use of model in the field of political risk analysis as will be done in this study with regard to South Africa and Nigeria, the definition created and refined by Charlotte Brink, 2002 in her study, becomes exceptionally useful and also very applicable. Brink (2002: 52) moulds the definition of a model to suit the parameters of political risk analysis by defining a model for political risk analysis as " *an extended representation of a certain potential host country's political and overall business and investment climate as viewed by potential foreign investors, political risk analysts and host governments, that wish to use the model for political risk analysis in order to better understand and comprehend, adapt to, manage and control the identified political risk factors the model is specifically designed for to deal with* (Brink, 2002: 52).

Brink further qualifies this definition by stating that when analysts busy themselves with the work of political risk analysis, they are in fact already managing the political risks that have the potential to negatively impact upon foreign investment (Brink, 2002: 52). Therefore the creation, development and refinement of political risk models are so important, since even though they may not be exact, they allow a framework from which analysts are able to make decisions and therefore manage and control potential outcomes. Before evaluating the level of political and country risk by means of a model for South Africa and Nigeria the following sections will briefly discuss the already existing models specifically catering for political risk analysis.

5.2 *Conceptual Models Within The Field Of Political Risk Analysis*

5.2.1 *The Bronfenbrenner Model*

As mentioned, the study of political risk first really gained momentum in the late 1950s consequently this is also the time period in which models were constructed with which to aid the study of political risk. One of the pioneer models constructed was that of Martin Bronfenbrenner. Bronfenbrenner argues that confiscation has the potential to be a viable alternative to in some cases increase the rate of or redirect economic development. His argument concludes with that if the appeal of confiscation makes economic sense, it should increase with time. Chermak (1992: 168) criticises this model since confiscation has indeed not always made economic sense. Due to the fact that even though confiscation has in some instances been used as a means with which to increase economic development, it has not always been successful in doing so. Chermak (1992: 168) cites examples of this being the nationalisation of the US operated copper mines in Chile as well as the nationalisation of the Zambian and Zaire copper industries. Bronfenbrenner's model is further deficient in that not only is it not empirically supported, but it has also been qualitatively disproved by history (Chermak, 1992: 169).

5.2.2 *Johnson's Model Of Political Risk*

Harry Johnson's model has also been termed as "the model of economic nationalism" this is what political risk was formerly regarded as being. To form his model, Johnson borrows from several other sources, so giving rise to what has been termed as being his "psychic satisfaction" approach to expropriation. In his argument he states that the governing elites together with the population of a developing country are often willing to sacrifice material advantage for the psychic satisfaction of nationalistic acts. Examples of so-called nationalistic acts include expropriation of foreign controlled companies as well as the displacement of foreigners by nationals in high prestige jobs (Chermak, 1992: 169). This model is deficient in the sense that it to a large extent relies on speculation, focusing on emotion (feelings of nationalism) and in the process ignoring the crux of a model i.e. to investigate political risk and there is also no empirical evidence with which to substantiate this model (Chermak, 1992: 170).

5.2.3 *Vernon's "Obsolescing Bargain" Model*

This model developed in 1971 by Raymond Vernon was specifically focused on explicating the power dynamics between foreign firms in the extractive industry and host governments. According to this model, at the beginning of an extractive project the firm holds the majority of the power due to the fact that the host government does not possess the financial means or expertise to develop the project on its own. As a result, the initial concession granted may be weighted in favour of the investor. However, after the project is on line and profitable, a change rapidly occurs within the foreign firm / host country power structure. Resulting in the host government gaining the upper hand by using whatever permanent structure was constructed by the foreign firm as a bargaining chip to renegotiate a more attractive contract (Chermak, 1992: 170). Vernon's model carries with it much credibility as it has been known to occur in many developing countries as is stated by Moran (1974: 10), few large natural resource concessions in underdeveloped countries remain unchanged for long.

The diversity of the above models has been ascribed to the different times at which they were developed as well as in relation to the diversity of the backgrounds of the researchers i.e. some stemming from a political science background and others from an economic background (Chermak, 1992: 170).

5.3 *Present Methods In Which To Measure Political Risk*

As argued at the beginning of this chapter, no exact method or model exists with which to successfully measure the occurrence of political risk. Constructing or developing a suitable method or model has also further been impeded by the fact that the field of political risk consists of a variety of factors i.e. including both political and economic factors and the problem arises with the fact that whereas most economic factors would to a large extent be quantifiable and therefore measurable, most political factors are not as easily quantifiable, if at all.

The question therefore arises whether or not there is in fact an adequate method for measuring political risk? Investment decision is dependent on levels of political risk indeed this is the core purpose of political risk analysis i.e. to assist in investment decision. Thus measurement methodologies are likely to be used in the context of five main types of decision: 1) whether or not to invest; 2) when planning for performance expectations and investment tolerances; 3) how much to invest; 4) deciding the type of investment to be made and 5) the ability to deploy suitable strategies for the management of political constraints (Andrews, 1995: 60; Howell, 1983: 47; Keegan, 1974: 12).

The measurement methodologies that will briefly be discussed below include: the "grand tour" and "old hands" approach; the Delphi model; the BERI and BI method; the WPRF method as well as the PSSI index (Chermak, 1992: 173-174; Howard, 1993: 60; Andrews, 1995: 60).

5.3.1 *The "Grand Tour" And "Old Hands" Approach*

The "grand tour" is simply a visit to the country in question by the top management of the company. From that visit, investment decisions are made. Howard (1993: 58) states that such tours are ideal in a number of ways, providing opportunities to meet, look, and listen i.e. to experience the investment environment and its reaction to investors. Yet at the same time it should be noted that tour schedules might become clogged with "top level" briefings in which negative information may be glossed over or ignored altogether. The tour therefore ends up becoming more of a recruiting visit than an on-the-scene investigation into potential risk factors. Thus if this is the only analysis carried out, it is at best subjective and at worst subjective and uninformed (Chermak, 1992: 173; Howard, 1993: 58-59).

The "old hands" approach incorporates the opinions of people with experience in the country. Since it is opinions that are the deciding factor it should be noted that they might be both subjective as well as biased and consequently any decisions taken might have questionable reliability and validity (Chermak, 1992: 173).

5.3.2 *The Delphi Method*

This method was created in 1953 as a method for eliciting and refining group opinion making. This method is regarded as being an improvement on the "old hands" approach, since opinions are gained through a structured interview system, from several people who are considered knowledgeable. A decision is reached based on these opinions and it is regarded as supposedly being less biased since the decision is gained from a variety of opinions (Chermak, 1992: 173; Andrews, 1995: 60).

The Delphi procedure is designed to 1) minimise possible biasing effects in decision-making due to dominant individuals; 2) eliminate irrelevant communications among members of the group or panel of experts and 3) reduce group pressure towards conformity of opinion. The procedure has three main elements: anonymous response, iteration and controlled feedback, as well as statistical group response (Andrews, 1995: 61).

This method is however not flawless, the deficiencies which exist within this method include the following:1) questionnaire design together with the specification of the dimensions of the measures; 2) problems of selection and availability of a team of experts; 3) control and motivation of the experts and 4) interpretation and utilisation of the results (Chermak, 1992: 173; Howard, 1993: 60; Andrews, 1995: 62). As has been stated before in this study, political risk assessment involves not always equal quantities of both factual observations and value-judgements. Analysts should keep this fact at the back of their mind together with the fact that questionnaire construction can result in biased assessments, taking these two factors into account, it still should be noted that this method could be used with a fair degree of confidence in the assessment of business-government relations (Andrews, 1995: 62).

5.3.3 *The BERI and BI Method*

According to Chermak (1992: 173) among the best known and most used quantitative methods for the macro-assessment of political risk, based on expert opinion, include that of Haner's Business Environment Risk Index (BERI) and Business International's Country Assessment Service (BI). BERI, as described by Haner (1981: 20), includes 15 weighted variables that are regarded as being related to political risk. Examples of these variables include political stability, foreign investment attitude, monetary inflation, bureaucratic delays, currency convertibility as well as professional support. BI uses a similar technique to BERI but with different variables and different scoring techniques. Not surprisingly therefore, the predictions from BERI and BI have been found to be similar (Haner, 1981: 20; Chermak, 1992: 174; Andrews, 1995: 63).

The above two methods has been criticised in that even though they do offer a formalised assessment, this assessment is not based on an explicit model of the political system as it relates to business and Kobrin has also furthermore argued that assessments tend to be subjective and that weighting does not give a true indication of the importance of a factor (Kobrin, 1978: 115; Haner, 1981: 20; Chermak, 1992: 174; Andrews, 1995: 64).

5.3.4 *The World Political Risk Forecasts (WPRF) Method*

The WPRF method has an 18-month forecast as well as a five-year forecast, both based on the evaluations from approximately 250 experts from various countries. The regime most likely to be in power as well as a risk rating for expropriation in manufacturing and mining are some of the potential risks which the 18-month forecast sets out to predict. The five-year forecast on the other hand, gives a single letter grade that reflects the general level of political risk in the country (Chermak, 1992: 174; Andrews, 1995: 67). This method borrows to some extent from the Delphi method in that expert panel evaluations offer a check for systematic differences between countries and a hedge against a firm's possible internal bias (Chermak, 1992: 174).

Chermak (1992: 174) presents three critiques to the above methods. He argues that firstly, due to a lack of empirical and statistical testing of the factors used, one needs to assume the implication of potential subjectivity. Since, more subjectivity and bias may be introduced when analysis is based on personal opinion and numerous opinions does not necessarily mean no, bias. Also, at the impossibility of the elimination of subjectivity and bias, Chermak (1992: 174) notes that the above methods end up being nothing more than a ranking system and therefore cannot easily be incorporated into economic analysis.

5.3.5 *The Political System Stability Index (PSSI)*

This index uses three indices i.e. 1) socio-economic and economic condition of the country; 2) societal conflict and 3) political and governmental processes, to generate an overall score, which can be either positive or negative. A negative number indicates political risk. PSSI, to a certain extent, justifies the use of stability as a measure of political risk. The critique of this type of model however, is that it measures the probability of revolution or mass political violence and that these acts do not necessarily lead to increased political risk. Since research shows that more subdued acts may also lead to political risk due to non-market or political forces (Chermak, 1992: 175; Andrews, 1995: 70).

5.4 *Developing Risk Models For South Africa And Nigeria*

The aim of the discussions in the preceding chapters as well as the above section was to lay the foundation for the section that follows below. The section that follows below will be the construction of a hypothetical risk model for both South Africa and Nigeria. Although hypothetical, the model is based on a legitimate risk model developed by Charlotte Brink (2002:54). Furthermore, it also follows to a certain degree established risk models i.e. Mode's Investor Services; The International Country Risk Guide (ICRG) rating system as well as that of Standard and Poors, it is therefore all inclusive and has refined similar indicators as the ones used by the above companies.

5.4.1 *The Risk Model*

The risk model used in this makes use of both qualitative and quantitative analysis. For the purpose of this study, only three categories will be focused on i.e. Economic Risk; Political Risk and Social Risk. Most other risk models make use of a fourth category as well i.e. Industry Risk. Industry Risk is however, beyond the scope of this study, since it was not the objective of this study to focus on any particular industry in either South Africa or Nigeria. One of the objectives of this study is to give an overall indication of the level of risk within both South Africa and Nigeria and so to give a general overview of the investment climate to the potential investor.

Each of the three categories contains a wide scope of indicators, indicators that it should be noted, this particular researcher found necessary for this particular study. These indicators may therefore vary slightly from other indicators used in other risk models.

5.4.2 *Economic Risk Within The Model*

The model consists of six economic indicators, with each indicator, except for external debt, weighing 10 points. External debt for this particular model will be weighted out of 20, due to the fact that investors evaluate the level of external debt as an indication of the country's economic health. As previously discussed, Nigeria continues to struggle with an enormous external debt, having a large amount of external debt has been known to dissuade potential investors. Since it not only poses problems for the host country, but also for the foreign investor or company.

Individual economic indicator ratings are added up to a total out of 70 points. The closer to zero the rating; the lower the risk.

5.4.3 *Political Risk Within The Model*

There are ten political indicators that are weighted out of 10, again, except for strikes. Unionisation and the mobilisation of labour were discussed at length in both the South African and Nigerian cases. As mentioned, the South African labour movements played an instrumental role in South Africa's transition towards democracy. And today, even though union membership is on the decline, the unions are still a force to be reckoned with i.e. they still have the power to bring the entire country to an economic standstill simply by engaging in a strike for a few days. Many potential investors have cited the mobilisation of labour as one of the main reasons for their decision not to invest in the country. Therefore this researcher deemed it necessary to give the "strikes" indicator more weight than the other indicators within the political risk rating. It should be noted however, that this does not minimise the importance of the other indicators within this category. Individual political indicator ratings are added up to a total out of 110 points. The closer to zero the rating; the lower the risk.

5.4.4 *Social Risk Within The Model*

The model uses ten social indicators, all weighted out of 10 except for the literacy rate indicator and the AIDS pandemic indicator. First, literacy rate of a host country has continued to gain increasing importance for a potential investor. With the increase of technological advancement, the search for cheap, unqualified labour has steadily declined. Foreign Direct Investment often includes the transfer of both knowledge and technology and as such the investor saves on additional expenses of having to train the locals of the host country, when they already have some degree of literacy i.e. thereby aiding and simplifying the process of knowledge and technological transfer.

The impact of the AIDS pandemic on the labour market and consequently on the investors in both South Africa and Nigeria has also been discussed at length in chapters: three and four. AIDS is problematic since it targets the economically active labour market and with this section of the population dying out, there will be very little people left to actually do the work. Related to this is the future exorbitant medical expense that workers will become to the company e.g. regular medical checkups and absenteeism, etc. and so this medical expense, will eventually transform into an enormous economic expense. Investors will then be left questioning whether or not the rewards really outweigh the risks. Social Indicator ratings are added up to a total out of 120 points. The closer to zero the rating; the lower the risk.

5.4.5 *The Final Overall Country Risk Rating*

The final overall country risk rating is measured out of 300, and is reached as follows:

CCR = 1/3 (ER+PR+SR)

CCR: Country Risk Rating

ER: Economic Risk Rating

PR: Political Risk Rating

SR: Social Risk Rating

5.5 *Evaluating The Risks In Nigeria And South Africa*

5.5.1 Nigeria

5.5.1.1 *The Economic Risk Rating*

Economic risk factors are assigned with a rating of 0-10, except for, as has been discussed, external debt. 0 being the complete absence of risk and 10 being high risk, in the case of external debt, the range will be from 0-20, with 20 representing high risk. A composite total economic rating is given as: Very Low Risk (0-10); Low Risk (11-21); Low-Moderate Risk (22-32); Moderate Risk (33-43); Moderate-High Risk (44-54); High Risk (55-65) and Very High Risk (66-70). Given the number of indicators, the total economic risk is counted out of 70.

Economic Indicators	
GDP Growth Rate	**8**
Inflation Rate	**5**
Foreign Exchange Reserves	**6**
Balance of Payments	**8**
External Debt (20)	**17**
Investment Promotion Policies	**5**
Total Risk (Moderate-High Risk)	**49/70**

5.5.1.2 *The Political Risk Rating*

Political risk factors are assigned with a rating of 0-10, except for, the "strikes" indicator. 0 being the complete absence of risk and 10 being high risk, in the case of "strikes"; the range will be from 0-20, with 20 representing high risk. A composite total political risk rating is given as: Very Low Risk (0-15); Low Risk (16-31); Low-Moderate Risk (32-47); Moderate Risk (48-63); Moderate-High Risk (64-79); High Risk (80-95) and Very High Risk (96-110). Given the number of indicators, the total political risk is counted out of 110.

Political Indicators	
Regime Legitimacy	**5**
Past Military Rule	**8**
Violent Regime Changeover	**6**
Influence of the Military	**8**
One Party Dominant State	**6**
Religion Dominant Government	**8**
Tensions Within The Region	**4**

Possibility of Being Overthrown by Military	**8**
Corruption	**8**
Strikes (20)	**12**
Total Risk (Moderate-High Risk)	**73/110**

5.5.1.3 *The Social Risk Rating*

Social risk factors are assigned with a rating of 0-10, except for, the literacy rate indicator and the AIDS pandemic indicator. 0 being the complete absence of risk and 10 being high risk, in the case of the literacy rate indicator and the AIDS pandemic indicator, the range will be from 0-20, with 20 representing high risk. Given the number of indicators, the total social risk is counted out of 120. A composite total social risk rating is given as: Very Low Risk (0-17); Low Risk (18-35); Low-Moderate Risk (36-53); Moderate Risk (54-71); Moderate-High Risk (72-89); High Risk (90-107) and Very High Risk (108-120).

Social Indicators	
Literacy Rate (20)	**15**
Unemployment	**6**
Religious Tension	**8**
Ethnic Tension	**8**
Communications Media	**6**
Transportation Systems	**6**
Infrastructure	**8**
Affirmative Action	**5**
Crime Rate	**6**
AIDS Pandemic (20)	**17**
Total Risk (Moderate-High Risk)	**85/120**

5.5.1.4 *Overall Country Risk: Nigeria*

Economic Risk	49/70
Political Risk	73/110
Social Risk	85/120
Total Risk	**207/300**

5.5.2 South Africa

5.5.2.1 *The Economic Risk Rating*

Economic Indicators	
GDP Growth Rate	**6**
Inflation Rate	**5**
Foreign Exchange Reserves	**5**
Balance of Payments	**6**
External Debt (20)	**12**
Investment Promotion Policies	**5**
Total Risk (Moderate Risk)	**39/70**

5.5.2.2 *The Political Risk Rating*

Political Indicators	
Regime Legitimacy	**3**
Past Military Rule	**2**
Violent Regime Changeover	**4**
Influence of the Military	**4**
One Party Dominant State	**5**
Religion Dominant Government	**4**
Tensions Within The Region	**6**
Possibility of Being Overthrown by Military	**4**
Corruption	**6**
Strikes (20)	**17**
Total Risk (Moderate Risk)	**55/110**

5.5.2.3 *The Social Risk Rating*

Social Indicators	
Literacy Rate (20)	**15**
Unemployment	**7**
Religious Tension	**3**
Ethnic Tension	**3**
Communications Media	**3**
Transportation Systems	**5**
Infrastructure	**3**
Affirmative Action	**7**
Crime Rate	**8**
AIDS Pandemic (20)	**17**

Total Risk (Moderate Risk)	**71/120**

5.5.2.4 *Overall Country Risk: South Africa*

Economic Risk	39/70
Political Risk	55/110
Social Risk	71/120
Total Risk	**165/300**

5.5.3 *Country Risk Rating For South Africa And Nigeria*

With: Very Low Risk (0-14), Low Risk (15-29), Low-Moderate Risk (30-44), Moderate Risk (45-59), Moderate-High Risk (60-74), High Risk (75-89), and Very High Risk (90-100).

5.5.3.1 South Africa

CRR = 1/3 (ER+PR+SR)

= 1/3 (39+55+71)

= 1/3 (165)

= **55/100**

According to the above model, South Africa therefore has a moderate risk.

5.5.3.2 Nigeria

CRR = 1/3 (ER+PR+SR)

= 1/3 (49+73+85)

= 1/3 (207)

= **69/100**

According to the above model, Nigeria therefore has a moderate-high risk.

5.6 *Conclusion*

The aim of the above discussion was to provide a comprehensive understanding of the nature of political risk and all the factors that have to be taken into account when evaluating levels of political risk within a specific country. To place the model used in this chapter in context, it was first necessary to describe and discuss the various methods and models already available in the evaluation of political risk. As mentioned, no model or method is flawless and each of them in their own way, suffer from notable shortcomings, so too the model utilised within this study. This is due to the fact that even though it is based on a legitimate model, the researcher has chosen indicators deemed necessary for a study that focuses on South Africa and Nigeria, at the possible neglect of other indicators.

The findings i.e. that South Africa poses a moderate risk and Nigeria a moderate-high risk are not too surprising. The economic risk rating was fairly straightforward, these indicators are important when evaluating any country. Nigeria and South Africa's inflation rate indicator was given the same weight, since South Africa, especially this year has suffered from numerous inflation increases and currency fluctuations. The importance of external debt has been discussed and so too the weight given to Nigeria's external debt exceeds that of South Africa.

Nigeria also far outweighs South Africa with regard to political risk rating. Nigeria has for the most part been a military regime, South Africa, having had two successful democratic elections, can be regarded as being a legitimate regime. As previously discussed, corruption is also far more endemic in Nigeria than in South Africa, where strike action and the mobilisation of labour has more dominance (Tuman, 1994: 13; Durotoye, 2000: 17).

With regard to the social risk rating, Nigeria suffers far more than South Africa with regard to religious and ethnic tension, hence the huge difference in the weight given to the indicators. South Africa also fairs better with regard to transportation systems (although only slightly), communications media and infrastructure. Both countries suffer from a low literacy rate as well as the present and potential destruction of the AIDS pandemic (Whatley, 2000: 32; Garner, 1993: 12; Tuman, 1994: 14; Michalet, 1997: 22).

All of these indicators as well as the impact on their particular country's investor perception have been discussed at length in previous chapters i.e. chapter three and four. It has therefore not been deemed necessary for the researcher to explain the impact of each indicator in detail once again. The chapter that follows this chapter will be the sixth and final chapter of this study. In this chapter a brief overview will be given of the preceding chapters, their findings and the way in which they contribute to the answering of the questions posed in the first chapter. The researcher will also discuss the potential shortcomings of this study, at the end of the chapter; recommendations will be made for future research on the topic of this study as well as related topics.

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Foreign Direct Investment And Political Risks In South Africa and Nigeria: A Comparative Analysis

Chapter Six: Conclusion

6.1 *A Brief Summary of the Study*

The aim of this chapter is not to repeat what has already been discussed in previous chapters, but rather to state the way in which these chapters have contributed to the conclusion of this study and whether it has indeed answered or provided more clarity on the questions posed at the start of this study.

The aim of this study was to answer the research questions posed in chapter one i.e. addressing the phenomenon of foreign direct investment and political risk in South Africa and Nigeria. Specifically focusing on the possible reasons why South Africa's level of foreign direct investment is not on par with levels in Nigeria and what South Africa could do to increase its level of foreign direct investment. In answering the above questions it was also therefore necessary to have an in depth discussion of perceived levels of political risk within both countries since these two phenomena are interdependent.

In chapter two, the importance of governmental policies was addressed. This was regarded as necessary for this study because governmental investment friendly policies as well as a country's international relations goes a long way in impacting on the perception that foreign investors have of a particular country and as such the level of foreign direct investment that they are willing to invest in a country. With regard to attracting foreign investment, South Africa implemented the RDP programme in 1994, the GEAR plan of 1996 and most recently, NEPAD.

In chapter three the South African labour market was discussed, specifically focusing on the impact of unionisation in South Africa. South Africa has always had a strong and influential union movement, so much so, that in many ways it has become a deterrent factor for foreign direct investment. The impediments that the South African labour market suffers from are also addressed in this chapter. The impediments referred to include unemployment, education, labour productivity, the AIDS pandemic, the employment equity legislation, strikes as well as the high South

African crime rate. These impediments have not only become obstacles to economic growth but as this study has argued it also inhibits substantial amounts of foreign direct investment since these impediments indeed contribute to economic, political and social risk. They therefore need to be earnestly addressed if the investment climate is to improve in South Africa. This has been a comparative study of South Africa and Nigeria and the comparison between the two countries takes place in chapters four and five.

Chapter four compares the labour market in Nigeria with that of South Africa and the chapter clearly shows that the two labour markets are quite comparable, suffering from the same impediments. Despite this fact however, Nigeria still receives more foreign direct investment than South Africa, while posing a higher political risk.

The aim of chapter five was to provide an in-depth discussion of political risk. With the aid of a political risk model, the perceived level of political risk within both countries was evaluated, concluding with the findings that South Africa poses a moderate political risk in comparison with Nigeria, which poses a medium-high political risk. It should be noted that even though this study has attempted to be as thorough as possible, there are some aspects that have been neglected both due to time constraints and in some cases being beyond the scope of this study.

6.2 *Recommendations And Future Research*

6.2.1 Recommendations

Research (Dahl, 2002: 9) has shown that whatever their country of origin, whatever their industrial sector, there is a common core to most international investors' views about what makes a particular country attractive for investment. The major determinants of investment site location can be regarded as being political and economic stability and basically non-harassing government behaviour, market potential, and technological capacity. Government policy also remains key to attracting FDI and promoting economic growth and employment. The quality of education also remains a priority since it is becoming increasingly attractive to invest in countries that offer a pool of skilled labour. Government should therefore focus on increasing the enrolments at secondary and tertiary institutions, thereby providing a trainable and efficient workforce that is attractive to foreign investors. Since basic education increases the rate of return on investment because it enables acquisitions of essential skills to enhance labour productivity and income.

Risk perceptions are an important influence on investment behaviour. Africa is perceived to be a high-risk continent with investors exposed to uncertainty over sustainability of reforms, the threat of policy reversals and political and civil unrest. Also, by pushing up the costs of doing business, Africa's inadequate and deteriorating physical infrastructure has inhibited capital accumulation undermining the continent's competitiveness in global markets (Dahl, 2002: 10; Sader, 2000:30; Narula, 1996: 5).

FDI can in a simplified way be regarded as being market-oriented (access to a market), resource-oriented (access to natural resources) or efficiency-oriented, such as with oil in Nigeria. As mentioned, Nigeria alone, accounts for a quarter of FDI flows to Africa, thus underlining the central role of the primary commodities sector, especially oil and gas, as a magnet for FDI. Investors in Africa are not surprisingly, resource-oriented. Having thus compared South Africa and Nigeria one can conclude that the reason for South Africa not receiving the same levels of FDI as Nigeria lies in the fact that resource-driven FDI is less dependent on macro-economic stability and national policy frameworks than market and efficiency-driven FDIs (Dahl, 2002: 10; Sader, 2000:30; Narula, 1996: 5).

6.2.2 Future Research

In this final section, areas for future research will be highlighted and briefly discussed.

- Administrative barriers

  The above barriers should not be underestimated as an obstacle for FDI in Africa. Research shows that the existence of administrative bureaucracy, the condition of so-called "red tape", as a main obstacle for investment in many developing countries. Since even though many Governments today have removed barriers to investments as well as deregulated and liberalised administrative barriers, the process continues to be slow in many instances.

- Africa's stereotypical perception by the rest of the world

  The general poor reputation of Africa among investors at international level has been identified as an important investment barrier for Africa. Due to this fact, it has been argued that one way to promote investments to the African continent would be to turn around the general perception of Africa as a continent of starvation, war and high risk for investors.

- Methods of collecting FDI information

The tools to be used in current research in order to scrutinise FDI are mainly limited to highly aggregated figures provided by UN organisations. However, if a more refined analysis is required for analyses of FDI and economic development, then there definitely exists a need for more precise statistics. The analyses concerning resource-driven, market-driven and efficiency-driven investment would then be more reliable than is the present case.

- Further questions that need to be investigated include: how can the process of reviewing and approving investment proposals and applications be effectively streamlined? ; How can decision makers base their procedures for screening and regulating FDI more predominantly on economic criteria rather than on political considerations? ; Also, how should a developing country differentiate its liberalisation of market seeking versus resource-seeking investments?
- With regard to political risk, further research is needed in the identifying and measuring of non-quantitative constraints and opportunities afforded by less concrete aspects of political risk.
- Comparative firm-specific case studies of the relationship between external political risk effects should also be undertaken. This is in terms of identifying political risk, and measuring its impact on the firm (Andrews, 1995).

In conclusion therefore it has become quite apparent that this particular topic has the potential for much more research. The subject matter will also continue to gain increased importance for both developed, but especially for developing countries. It is with this fact in mind that future research should not be neglected and indeed be encouraged.

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