



**DEPARTMENT OF TRADE
AND INDUSTRY**



**DEPARTMENT OF TRADE AND INDUSTRY
POLICY SUPPORT PROGRAMME**

**International Competitiveness And Value Chains in Selected Manufacturing Sectors
Study
Code: A.1.001**

**AN ANALYSIS OF THE POLITICAL ECONOMY OF THE SA
AUTOMOTIVE COMPONENTS INDUSTRY**

JUNE 1999

Submitted by

Justin Barnes

University of Natal: Industrial Restructuring Project

**AGORA' 2000 S.r.l.
Management Consultants
Via Germanico, 172
I-00192 Rome - ITALY**

**Tel.: +(39) 063 241 719 - Fax: +(39) 063 216 915
E-mail: agora2000@agora2000:it**

**DRA-development cc
Development Researchers & Policy Analysts
59 Rosebank Avenue, Roseglen, Morningside
Durban 4001 - SOUTH AFRICA
Tel.: +(27-31) 208-4112 - Fax: +(27-31) 202-8437
E-mail: astavrou@iafrica.com**

FOREWORD

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa's manufacturing competitiveness, the automotive industry, the clothing and textiles sectors, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness. Enquiries regarding IRP material should be addressed to: The Librarian, Centre for Social and Development Studies, University of Natal, Durban, 4041. Tel: 031 2601031; Fax: 031 2602359; email: smithm@mtb.und.ac.za.

Prof. Mike Morris
Head: IRP

ACKNOWLEDGEMENTS

The **European Union** through its **Department of Trade and Industry Policy Support Programme** provided the principal funding for the writing of this working paper. This financial support is sincerely appreciated and hereby acknowledged.

At an academic level a special thank you needs to be directed towards Sean Ellis who helped with data analysis and the generation of the various tables and figures for the working paper. Nikki Dunne's comments on the draft paper were also beneficial.

The views expressed in this paper are, however, solely those of the author. All responsibility for its content therefore lies with the author alone.

TABLE OF CONTENTS

INTRODUCTION.....	1
SECTION ONE: VALUE CHAINS WITHIN THE SA AUTOMOTIVE INDUSTRY.....	3
1.1 The present operating context.....	5
SECTION TWO: THE POLITICAL ECONOMY OF VALUE CHAINS	9
CONCLUSION.....	13
REFERENCES	14

INTRODUCTION

The Industrial Restructuring Project has worked with the South African automotive industry since 1996. Initially the focus was on firm level competitiveness. However, over time it has become increasingly clear that firms that perform equally well in terms of their operational competitiveness are not necessarily equally successful economically. Extensive contact with the domestic automotive industry has shown that there are a range of underlying issues (largely outside of firm control) that impact on success – that is, the political economy of the industry. In this paper, then, I critically reflect on the political economic trajectory of the South African automotive industry. Importantly, I draw upon the new international literature focusing on issues of global connectedness (c.f. Barnes and Kaplinsky 1999a, Humphrey et al 1998) rather than only on issues of competitiveness, which is where much of my attention has been directed in the past (c.f. Barnes 1997, 1998, 1999). The paper is in many ways then a reflective piece that draws together my perceptions of the political economy of the South African automotive value chain. Given my own bias towards analysing the automotive components industry the analysis also tends to focus disproportionately on this sector. Some level of consideration is, however, also given to the South African OEMs (Original Equipment Manufacturers or assemblers), particularly in terms of their “connectivity” importance for automotive component manufacturers, and the power that they have due to the political economic biases built into the national government’s Motor Industry Development Programme (MIDP).

From a conceptual perspective one of the most important intellectual cornerstones of this paper is Henry Bernstein’s piece on the political economy of the maize filière in South Africa (1996). The successes, as well as the anomalies and illogical determinants of the maize value chain (or filière) in this country are, as he highlights, strongly informed by political economic factors. He argues rather convincingly that it is only through a close analysis of these political economic determinants that one can really understand why success or failure takes place at the various linkages in the maize value chain. Bernstein notes that the typical filière (value chain) approach in economics involves an assessment of the various stages of physical transformation, and their interconnectedness, in the journey of a commodity from raw material to the consumer¹. Whilst he concedes that such an approach is valuable he also argues that it is important that one combines this approach as a research tool, with an “...*analysis of the social relations and institutions that structure economic life and markets...In short a form of analysis informed by political economy*” (Bernstein 1996: 120-121).

When applied to the automotive industry the issue of political economy raises some interesting questions. Critically, can the same be observed for automotive manufacturing value chains? Are political economic factors really so important as to help determine firm-level success or failure? Do they strongly shape the long-term trajectories of sectors? And if they do, then at what level - the local, regional, national and/or international? Importantly, moreover, what role does the government play in terms of these issues? Drawing on evidence from the automotive assembly and components industries, these are some of the questions explored in this paper. Due to the fact that this is an exploratory piece each of these questions unfortunately often raise even more questions, rather than suggesting concrete answers.

In order to deal with these critical issues the paper has been divided into two sections. In the first section the structure of the automotive industry is presented from a political economic perspective. After a brief historical overview of the automotive component industry’s development, as well as an outline of the present operating environment pressures being exerted on firms, a breakdown of ownership within the assembly and components industry is explored, as are exporting linkages and other indications of global connectedness. The importance of the MIDP in terms of these critical issues is highlighted. For illustrative purposes some comparative Brazilian and Indian data is also presented.

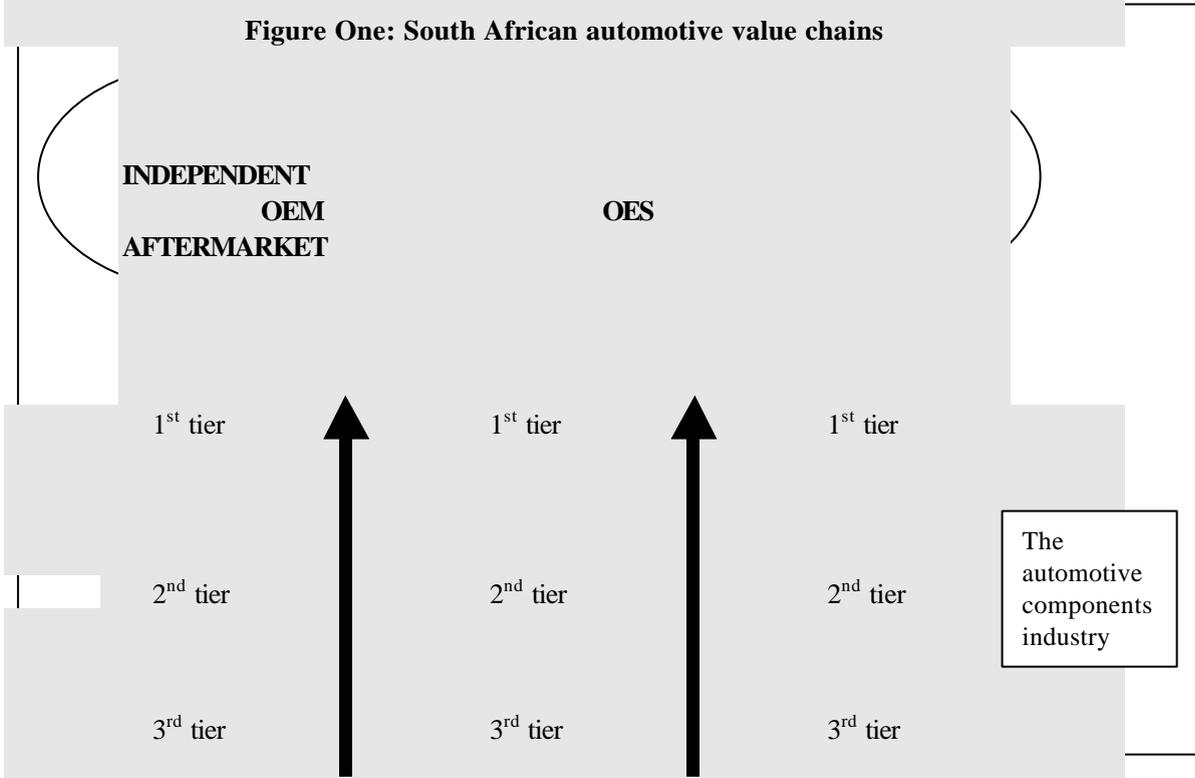
¹ This is a methodology that strongly informed the automotive-plastics pipeline study recently undertaken as part of the Department of Trade and Industry’s policy support programme.

Whilst much of **Section One** of the paper is descriptive, **Section Two** is more critical. Some attention is given to the macro trends related to the integration of the South African automotive industry into the global environment, whilst more detailed consideration is given to the automotive component manufacturing implications of the connectedness trends explored in **Section One**. The political economic issues related to these value chain changes forms the core focus of this section, in line with the critical questions raised earlier. A brief **Conclusion** then draws together the major questions raised in the paper, as well as some of the tentative answers provided. The policy implications of the issues explored are also given some attention.

SECTION ONE: VALUE CHAINS WITHIN THE SA AUTOMOTIVE INDUSTRY

A conceptual outline of the automotive value chains in South Africa is highlighted in Figure One, below. As is clearly apparent the South African automotive industry is to a large extent controlled by the OEMs. With a few independent aftermarket exceptions, most automotive component firms in South Africa are reliant on the OEMs for their economic wellbeing, whether it be for OEM or Original Equipment Supply (OES or Parts and Accessory market) business.

Figure One: South African automotive value chains



It is therefore impossible to understand the automotive components industry in South Africa without understanding their relationship with the South African OEMs. This is in no ways a recent phenomenon either, as the following brief outline of the domestic automotive industry's history suggests.

The historical context

The automotive components industry in South Africa grew out of the first automobile assembly plants established in South Africa during the 1920s². As a result of tariff protection being afforded to these assemblers some basic components such as batteries, glass and tyres were soon being sourced locally (Julius 1986, Duncan 1997). Whilst this picture did not change much over the next two decades, the low levels of value added within the sector led the government to target the sector after the Second World War. This was due to the fact that it accounted for 15% of total imports in 1960 and because it was seen to have both growth potential and externalities to other sectors (Julius 1986, Black 1995).

Government intervention led to a series of local content programmes (six in total), beginning in 1961 and ending in 1995, involving a combination of tariffs and import permits, with each phase designed to increase the degree of local content and further encourage OEM-component linkages in South

² Ford established the first assembly plant in South Africa in 1924, with General Motors following in 1926.

Africa. In many respects this programme reflected similar protective regimes in other developing countries such as India and Brazil.

There was a second distinctive feature to the development of the South African industry, however. This relates to the imposition of sanctions from the late 1970s, which resulted in disinvestment by the two largest North American assemblers – the early pioneers in South Africa – with both firms selling their holdings to local parties. At the same time, two new Japanese entrants which came to have a dominant share of the market (Toyota and, to a lesser extent Nissan) produced in South Africa under franchise. This meant that whereas there were a few other developing countries which had locally-owned automobile industries (such as India, Korea and Malaysia), South Africa was unique in having locally-owned producers of major international products. Neither Nissan nor Toyota, for example, had any other global plants working as franchise producers. Not all OEMs responded in this way to the sanctions environment, however. Two German assemblers – Volkswagen and BMW - continued to operate in South Africa through wholly-owned subsidiaries, whilst another German assembler, Mercedes Benz, maintained its 50% equity in Mercedes Benz SA.

Apart from this direct German equity in the OEM industry, there was therefore very little foreign presence in the industry through to the early 1990s. Of the seven OEMs still operating in South Africa by the mid-1980s, four were South African owned and one other partly South African owned.

The various local content programmes, as well as the sanctions era, also created an artificially diverse locally owned automotive components industry in South Africa. This resulted in the creation of domestically entrenched automotive value chains. These domestic value chains, while controlled by the (domestic) OEMs, were mediated somewhat by the local content provisions of government policy. In essence the government's various policy mechanisms forced OEMs into purchasing from domestic component firms thus giving the components industry a level of political economic leverage.

Up until the mid-1990s the automotive industry in South Africa was therefore dominated by mainly domestically owned OEMs encouraged into “partnership” with domestic automotive component firms. This encouragement took two forms:

- As a carrot the domestic OEMs were provided significant levels of protection from their global competitors (115% in mid-1995), and
- As a stick they had to meet the government's local content requirements and purchase much of their inputs from uncompetitive domestic component manufacturers or pay severe excise penalties.

From the late-1980s to the mid-1990s there consequently existed an automotive value chain status quo of sorts. Industrial Restructuring Project research (Barnes, 1997, 1998), for example, highlighted very little new automotive investment during this period. Established networks continued to operate through difficult economic conditions, with the result being a stable political economic environment.

The launch of the MIDP in September 1995, and the industry's subsequent reintegration into the global automotive industry has however fundamentally altered this status quo. Quite striking changes have taken place at both the OEMs and the component manufacturers, with the net result being a rapid reorientation of the industry over the last four years. The author has closely monitored these changes, with most attention thus far being given to the competitiveness dynamics underpinning these changes. It is not only competitiveness issues that presently confront firms, however. So too do issues of connectivity. And the reasons for this relate to the political economic changes that have occurred in the industry. The MIDP has not only changed the focus of the industry from being inwardly to outwardly oriented it has also changed the nature of the political relationship between OEMs and domestic automotive component firms.

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

As highlighted in Table One, below, the domestically owned OEMs have all undergone pronounced ownership changes over the last few years. It is only the German subsidiary OEMs that have maintained their ownership profiles. All domestic OEMs are now at least partly controlled by MNCs, with Toyota SA the OEM with the lowest level of foreign equity at 27.8%.

Table One: Ownership changes at SA OEMs			
South African OEM	Vehicles Manufactured	Present ownership	Ownership: Early 1990s
Toyota SA	Toyota	72.2% local (listed on the Johannesburg Stock Exchange with Wesco as main shareholder, 50%), 27.8% Toyota Motor Corporation (Japan).	JSE listed (100% local)
Volkswagen SA	Volkswagen, Audi	Volkswagen AG	Volkswagen AG
BMW SA	BMW	BMW AG	BMW AG
Mercedes Benz SA	Mercedes Benz, Honda, Colt (Mitsubishi)	DaimlerChrysler	Daimler Benz (50%) Local (Volkskas) 50%
Samcor	Ford, Mazda, Mitsubishi	55% Anglo American, 45% Ford (but has management control)	Anglo American 100%
Automakers	Nissan, Fiat	Sankorp (local) 37%, Nissan Motor Company (Japan) 50%, Nissan Diesel Motor Company (Japan) 4.3%, Mitsui (Japan) 8.7%	JSE listed (87% local)
Delta	Opel, Isuzu	51% local management, 49% General Motors	100% local

1.1 The present operating context

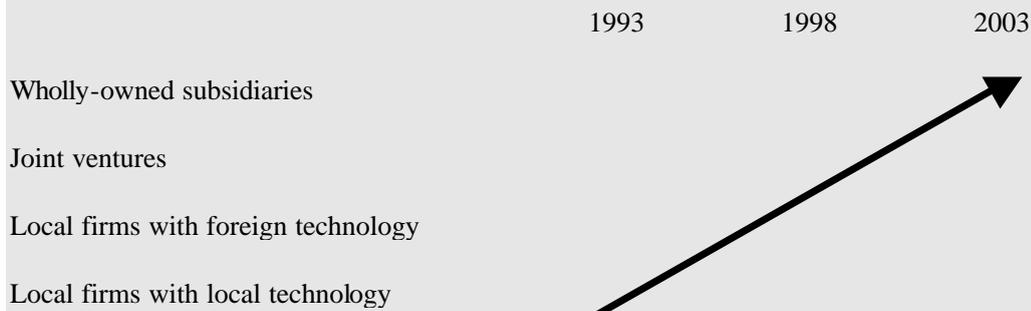
These ownership changes, along with the launch of the MIDP, have strongly influenced the connectedness of the automotive assembly industry in South Africa. Whilst the industry was previously cut off from the international environment and the global trends buffeting it, this is no longer the case. The OEMs in South Africa are rapidly falling into line with their parent company operations, resulting in the rapid reorientation of their presence in the global industry and by implication their own position within global value chains. This of course has enormous implications for the domestic automotive component firms feeding into the OEMs.

These implications stem from two important factors. The first of these is the new demands emanating from the value chain repositioning that is taking place and the second, the political economic reconfiguration that has taken place between OEMs and automotive component firms because of the Motor Industry Development Programme.

The new demands being placed on automotive component firms in South Africa has been clearly highlighted in the globalisation paper written by this author for the **Department of Trade and Industry Policy Support Programme**. These cover two broad areas. The first is the need for operational competitiveness amongst component manufacturers. Poor performance is no longer tolerated by the OEMs, with the net result being ongoing operational pressures on the component firms by the OEMs. Failure to conform to specified performance targets results quite simply in the transfer of business from the South African company to a foreign operation.

In addition to these operational issues the OEMs are also now demanding different equity relations between their domestic component suppliers and their parent company's component suppliers. In the past most South African component firms had licensing agreements with multinationals. On the basis of (at times exorbitant) royalty payments the South African companies manufactured products according to the design specifications of the foreign companies.

Figure Two: Changing strategic perspectives on the preferred ownership of South African based automotive component suppliers



Source: Interviews with OEM purchasing personnel

This is, however, no longer the preferred option, as highlighted in Figure Two, above. South African OEMs increasingly want their domestic suppliers to have an equity relationship with the owners of their designs. The reasons for this trend stem from three principal changes in the global automotive industry:

1. A simultaneous process of model rationalisation (reducing the number of platforms each company makes) and model differentiation has forced OEMs at the global level to concentrate their attention on overall vehicle design and systems integration. As a consequence of this, the first tier MNC suppliers are assuming increasing responsibility for the technological content of their sub-systems, and for the upgrading and control of their own supply chains.
2. In order to facilitate the growth of scale economies and technological capabilities amongst these first tier suppliers, the OEMs are forging global sourcing relationships with them. This means that the suppliers serve the needs of the OEMs throughout their global operations.
3. In order to avoid the build-up of global inventories, a necessary complement to this process of global sourcing is the development of follower supply relationships. This relates to the manner in which the first tier (and sometimes even the second tier) suppliers either locate greenfield plants in close proximity to final assembly plants throughout the global operations of their OEM customers or alternatively purchase existing operations in countries where the OEMs operate, thereby ensuring a global presence.

The significance that these three developments have for the trajectory of the South Africa component sector from a political economic perspective will become evident in the analysis that follows. First, though, one needs to briefly consider the various parameters of the MIDP, as it is this new government programme that has fundamentally changed the operating environment for domestic automotive component firms.

The MIDP

The national government's Department of Trade and Industry implemented the Motor Industry Development Programme (MIDP) in September 1995. Recognising the problems besetting the

DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT

industry, i.e. high-cost and low volume production, the MIDP was established to reorient the structure of the industry in order to achieve global competitiveness (Black 1998). The MIDP was established after considerable consultation between all industry stakeholders, including government, the OEMs and automotive component producers, as well as the National Union of Metalworkers of South Africa (NUMSA). The Programme has five principal objectives:

1. Improve the international competitiveness of OEMs and automotive component firms
2. Improve vehicle affordability in real terms
3. Enhance the growth of the assembly and components industries, particularly through exporting
4. Improve the industry's trade balance, and finally
5. Stabilise employment levels

It was believed that these objectives were not mutually exclusive and that they could be achieved through the phased integration of the South African industry into the global automotive environment. The MIDP, which runs until 2002, and which in all likelihood will continue to run (albeit in a slightly changed form) until 2007³, comprises five sets of incentives to achieve this outward orientation:

1. A tariff phase down schedule that reduces nominal rates of protection to 40% for completely built-up units (CBUs), and 30% for completely knocked down (CKD) components by 2002.
2. A duty free allowance for domestic OEMs of 27% of the wholesale value of the vehicles they manufacture.
3. A small vehicle incentive (SVI), which operates as a subsidy for the manufacture of more affordable vehicles. It operates via a duty drawback mechanism with the value of the drawback being contingent upon the ex-factory value of the motor vehicle.
4. The complete abolition of a minimum local content provision for domestic OEMs and
5. The introduction of an import-export complementation (IEC) scheme that allows both OEMs and component manufacturers to earn duty credits from exporting. These duty credits can then be used to offset import duties on cars, components or materials, or alternatively they can be sold on the open market.

Given the various facets of the programme the domestic OEMs continue to gain from protection—by 2002, 49.1% of cars will still continue to face duties of more than 15%. The component manufacturers also appear to be protected, with 51.5% of their output benefiting from more than 15% protection by the year 2002. However, this level of protection for the components sector is deceptive. The OEMs are able to bring-in duty free components through the SVI window, as well as through the IEC scheme whereby they either export components directly or on behalf of component manufacturers. Alternatively they can buy-in duty credits from component suppliers who are exporting into the international aftermarket. Given the various mechanisms by which the OEMs can earn duty rebate it is extremely difficult to calculate the exact level of protection for the automotive components industry. It is however suffice to say that by 1998, the effective protection offered to the component sector was negligible with one estimate putting it at only 3% (Engineering News, June 28-July 2, 1998).⁴

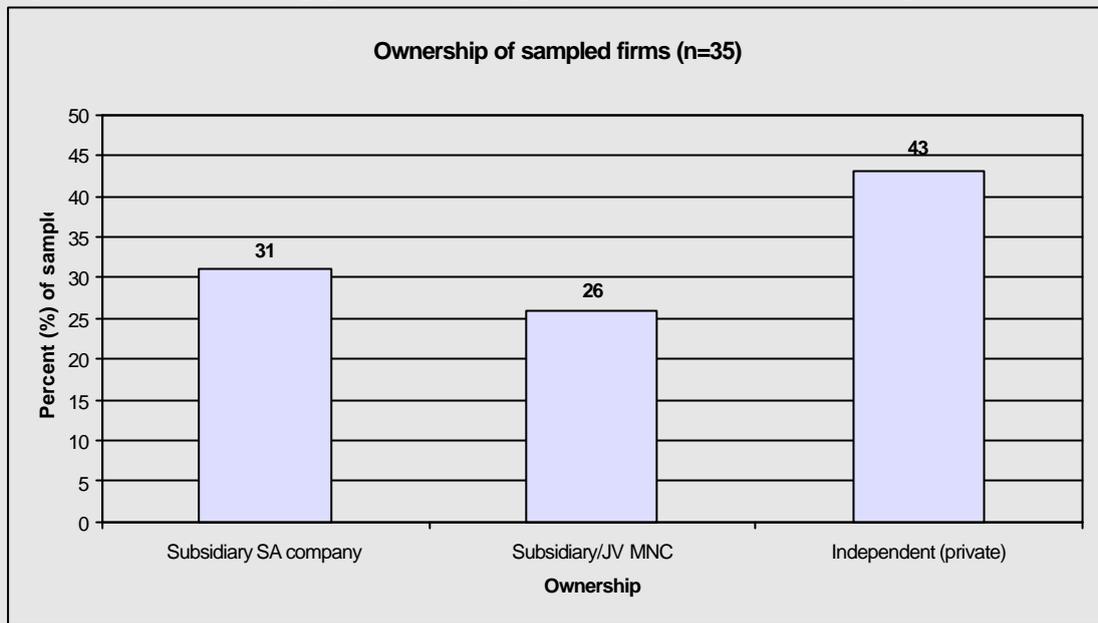
To put it as simply as possible, the automotive components industry receives only negligible government protections and is presently faced with a huge competitiveness challenge on two fronts. Firstly it needs to improve its competitiveness in order to keep foreign imports out of the domestic market and secondly, it needs to reposition itself in new value chains in order to consolidate relationships with OEMs and facilitate exports. This is where issues of connectedness are so

³ The MIDP is presently being reviewed. Whilst post-2002 changes have yet to be finalised, the basic tenets of the programme are likely to remain in place through to 2007.

⁴ Greater levels of protection for the assembly sector is not uncommon internationally and is also evident in Brazil and to an even greater extent in India (Humphrey 1988).

important, particularly given the fact that the industry is still largely South African owned, as highlighted in Figure Three.

Figure Three: Ownership profile of a sample of domestic automotive component firms



Source: Barnes (1998)

What then are the political economic ramifications of the trends highlighted above, particularly given the importance of value chain dynamics within the industry? Are all OEMs facing the same challenges and what are the implications of any variance for their automotive component supply chains? It is these important questions that form core areas of focus in Section Two of this paper.

SECTION TWO: THE POLITICAL ECONOMY OF VALUE CHAINS

The most important point that one can make about the changed operating environment confronting the automotive industry in South Africa is that it is not a neutral, uniform pressure forcing its way through the industry. The ownership of the South African OEMs has important implications for automotive component firms, especially given the various facets of the MIDP, and the manner in which the industry has been reintegrated into the global operating environment.

Automotive component firms can no longer solely rely on domestic OEM/OES and aftermarket sales for their continued survival. Without any local content provisions, and with the removal of almost all duty protection, the industry has to both keep foreign imports from undermining local sales and significantly increase its levels of exporting. Given the connectedness issues explored in Section One of this paper it is not, however, possible for firms to export independently. Multinational control of international marketing networks makes independent exporting extremely difficult. Apart from a few important exceptions (for example, the export of stable technology independent aftermarket products) this is the reality facing many automotive component firms.

To penetrate the export market automotive component firms therefore need to either use the domestic OEMs as a conduit for their exporting and/or generate a close relationship with a first tier MNC component supplier. Regarding the latter option, this requires the sale of either a majority equity shareholding to the MNC or alternatively the setting up of a sub-contracting relationship. Either route changes the political dynamics within the automotive component firm's value chain. Not only are the domestic boundaries of its previous value chain broken and the resulting operating pressures that emerge so much greater, the locus of the value chain's control also shifts significantly. Depending on the nature of the product being manufactured and whether it is a lead source or OEM proprietary design, political leverage has shifted quite markedly to either the OEMs or to the lead source MNC component supplier.

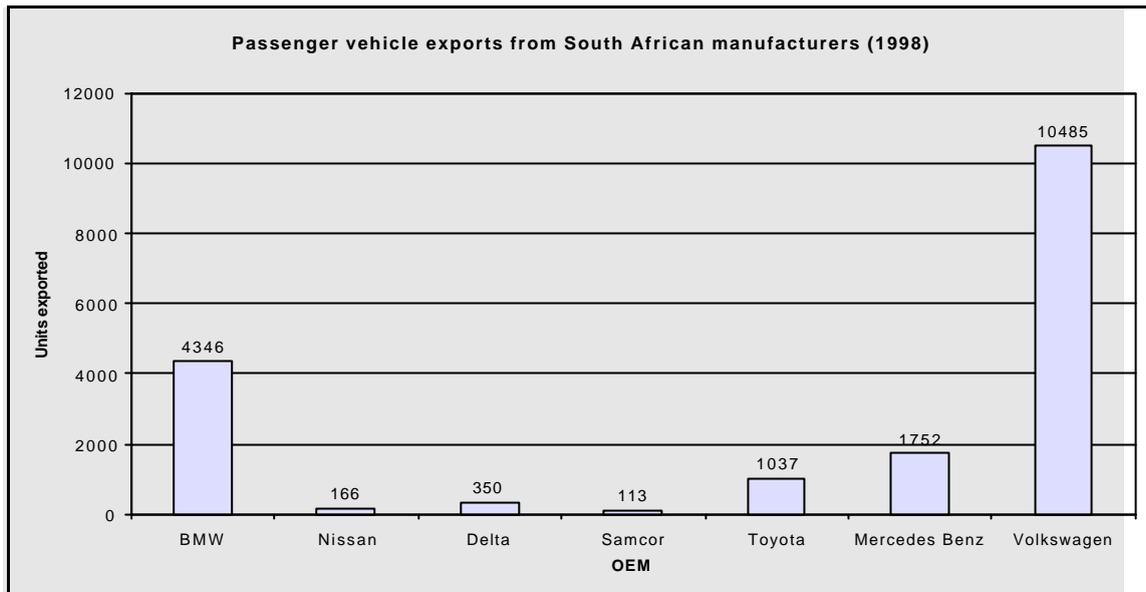
Irrespective of which link in the value chain holds controlling power it is clear that South African automotive component firm options are limited. In essence the firms either accept the new operating environment or move out of the automotive industry. This does not, however, mean that there is a set of uniform pressures being exerted on the automotive components industry, as this is dependent on their market focus (see Figure One), as well as the nature of the value chains in which they find themselves.

The German-owned OEMs (due in part to their continued link into the domestic industry through the sanctions era, and their direct vested interests in the local economy) are, for example, beginning to export significant volumes of vehicles from South Africa. This is evident from the BMW 3-series and the Volkswagen Golf 4 export contracts. Importantly, they are also playing a critical role in acting as conduits for automotive component exports from South Africa.

Both passenger vehicle and automotive component export figures clearly support this contention, as highlighted in Figures Four and Five.

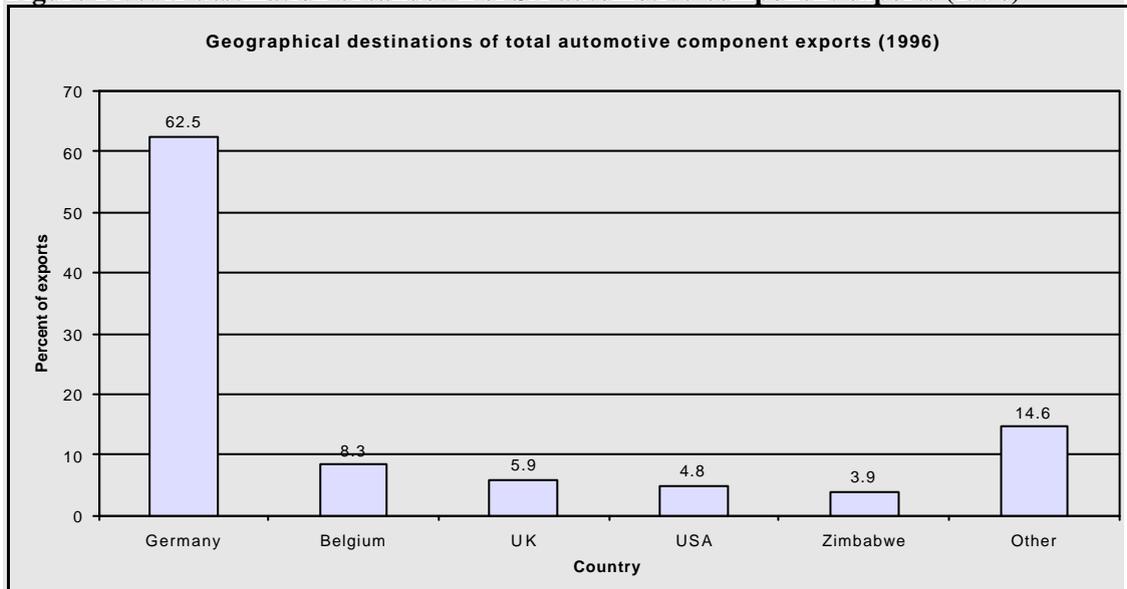
Figure Four: 1998 Passenger vehicle exports from South Africa by manufacturer

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**



Source: <http://www.response.co.za/naamsa/exports>

Figure Five: A destination breakdown of SA automotive component exports (1996)



Source: IDC (1998)

The non-German owned OEMs⁵ are in a far more difficult position in terms of their global repositioning. Thus far they have not been given the opportunity to export significant CBU volumes by their equity-linked parent companies, with the net result being significant pressure on them, as well as on their supply chains⁶. Whilst they are not effective in terms of acting as conduits for automotive component exports, these OEMs are still exposed to the same domestic pressures as the German OEMs. Their component suppliers are therefore locked into value chains that demand improved competitiveness performance but that cannot offer the required economies of scale or stability of demand. These OEMs are unable to offer the component firms the levels of connectedness required to export, simply because they suffer from that same critical weakness.

⁵ I have included the Japanese and US linked OEMs together here, although it would appear as if even greater limitations are placed on the Japanese linked OEMs.

⁶ Given the greater levels of protection being afforded the OEMs the pressures in this regard are in fact greater amongst their component suppliers.

**DEPARTMENT OF TRADE AND INDUSTRY POLICY SUPPORT PROGRAMME
PROGRAMME MANAGEMENT UNIT**

In addition, in the case of the non-German OEMs automotive component equity linkages into the industry are curtailed, thus closing down the export opportunities that are generated through that form of connectedness. The non-German parent OEMs have not, as yet, forced their lead source suppliers into investing in the domestic automotive components industry. Japanese linked South African component firms rely, for example, on licensing agreements rather than equity relationships. In essence this restricts their sales activity to the domestic market and often to only one or two OEMs. With the exception of the automotive tyre industry, there is in fact no automotive component firm in South Africa with any level of Japanese equity. And yet there have been sizeable recent German investments in the industry, as highlighted in Table Two, below.

Table Two: Some recent German MNC investments in the South African automotive components industry

German Company	South African Company
Behr AG	T&N Holdings heat transfer division
Era	Beier
Aunde	Cartrim
Aunde	CTAP
Lemförder	Auto Industrial's Rosslyn plant
August Laepple	Not applicable – Greenfield investment
Zeune-Starke	Not applicable – Greenfield investment

The ramifications of these connectedness differences are enormous. At the one level they are contributing to the systemic restructuring of automotive value chains within South Africa, as was widely anticipated, given the basic tenets of the MIDP. At the second level, however, they are fundamentally changing the development trajectory and political economic orientation of the industry. This in itself is moreover occurring in a number of different ways.

Firstly, because the trajectory of the industry is being strongly shaped by the ability of firms to connect into global value chains and because this is most likely to happen through German OEMs or lead source suppliers, automotive value chains are likely to become increasingly controlled by German MNCs. This does not mean that this is a negative development, but rather that it is a development that is likely to fundamentally alter the political economic structure of the value chains that make up the South African automotive industry.

Secondly, the manner in which the MIDP is structured, particularly in terms of the IEC scheme, has enormous implications for the non-German dominated value chains. As duty credits proliferate through the automotive industry and are increasingly purchased at discounted rates by the non-German OEMs, the non-German value chains are increasingly strained - their tariff protection disappears and they are unable to counter this by finding international markets for their products. In essence they face the “stick” of the MIDP, without having any access to the “carrot”. The firms are forced into having to continuously improve their operational competitiveness but without the potential benefit of exposure to global markets needed for firm-level development and the generation of economies of scale necessary for new capital investment.

Thirdly, due to the regional spread of OEMs in South Africa, this political economic transition has enormous implications for automotive embeddedness within particular localities. The manner in which these value chain issues play themselves out at the locality-specific level is well illustrated by highlighting the challenges facing Toyota SA, the only major OEM based in Durban.

Toyota SA is without much doubt the most successful of the South African OEMs, with its financial and market performance outstanding in comparison to its domestic competitors. It is the most profitable of the seven OEMs and its Corolla/Conquest range is the best selling in the domestic market by a considerable margin. In South African terms, it is an extremely well run company with a clear

understanding of the domestic automotive market. Somewhat ironically, however, whilst it is the strongest South African vehicle manufacturer domestically, it is probably the weakest in terms of its global networking abilities, which as clearly highlighted, is critically important in terms of the manner in which the industry is being restructured. Toyota Japan only has a 27.8% equity stake in Toyota SA, with the majority of its shares being owned by Wesco, a South African company listed on the Johannesburg Stock Exchange. As was revealed in Table One, Toyota SA has the lowest level of foreign equity of any of the South African OEMs.

Toyota SA's export markets are therefore restricted by Toyota Japan, thus limiting the company's ability to generate benefits from the MIDP. Given the fact that Toyota Japan has not as yet adopted a global sourcing strategy there are also only limited export opportunities for even the most competitive component firms supplying Toyota SA. Importantly, moreover, these component firms tend (at best) to have licensing agreements with Japanese firms. This stands in stark contrast to the German-owned domestic OEMs, where component export contracts have been widely facilitated.

Whilst Toyota SA is extremely competitive in the domestic market at present it is therefore rather weak strategically. If the company is going to compete in the long term it needs better access to Toyota Japan's global networks, and it similarly needs to help facilitate significant export contracts for its domestic component suppliers, many of which are located in close proximity to its vehicle manufacturing plant in Durban. Until this occurs the OEM-focused automotive component manufacturers in KwaZulu-Natal are likely to be more negatively impacted on by the new operating environment than those firms based in Port Elizabeth and Rosslyn supplying Volkswagen and BMW respectively.

CONCLUSION

As highlighted throughout this paper the automotive assembly and components industries are presently going through a pronounced transformation. This transformation is being strongly led by changes at the OEM level, in much the same way as OEM changes have influenced the components industry since the inception of the two industries in the 1920s. The fundamental difference now, however, is the outward orientation of the industry as brought about by the launch of the MIDP in September 1995.

This outward orientation has been enforced through a number of policy mechanisms that have drawn the industry into a global operating environment that is itself undergoing major changes. These changes have effectively removed all protection from the automotive components industry and through the removal of local content requirements ensured its dominance by the OEMs.

The manner in which this impacts on the automotive components industry is strongly determined by the value chains in which individual automotive component firms find themselves. The differences in connectedness between the German and non-German owned OEMs and their parent companies, is particularly important in this regard. As highlighted in the paper it is the German OEMs and their global lead source component suppliers that are increasing their presence by either facilitating exports or establishing manufacturing operations in South Africa.

Given the various mechanisms of the MIDP, this has enormous and generally deleterious implications for automotive component manufacturers that fall outside of these value chains. These firms are being increasingly exposed to international competitiveness pressures in much the same way as the German-linked firms, but without the potential connectedness benefits, such as exposure to global markets and the generation of export volumes.

This has important development implications for the automotive industry in South Africa. At the OEM level it shifts the importance of particular OEMs. This alters their political economic leverage in terms of influencing government policy at the national, regional and local levels. In essence it ensures the hegemony of the German-owned OEMs. At the automotive components level it also entrenches the importance of connectedness issues for the future survival of firms.

The political economic dimensions of South African automotive value chains are therefore of critical importance. Competitiveness issues alone will not determine the growth trajectory of the industry. As a result, government policy needs to be informed by an understanding of these connectedness and political economic issues. A failure to take cognisance of these powerful transnational forces could lead to the compromising of policy neutrality.

REFERENCES

- Barnes, J. R. (1997) "Facing up the global challenge: The state of KwaZulu-Natal's automotive components industry", CSDS Research Report No. 11. Durban: Centre for Social and Development Studies, University of Natal.
- Barnes, J. R. (1998) "Competing in the global economy: The competitiveness of the South African automotive components industry", CSDS Research Report No. 13, Durban: Centre for Social and Development Studies, University of Natal.
- Barnes, J. R. (1999) "What chances international competitiveness in the South African automotive components industry? Evidence from an international benchmark undertaking" Department of Trade and Industry Policy Support Programme Draft Report.
- Barnes, J.R and Kaplinsky, R. (1999a) "Globalisation and trade policy reform: Whither the automobile components sector in South Africa?" Competition and Change (forthcoming).
- Barnes, J.R and Kaplinsky, R. (1999b) "Globalisation and the death of the local firm? The automobile components sector in South Africa", Regional Studies (forthcoming).
- Bernstein, H. (1996) "The political economy of the maize filière", in The Agrarian Question in South Africa.
- Black, A. (1995), An industrial Strategy for the Motor Vehicle Assembly and Component Sector, Cape Town: University of Cape Town Press.
- Black, A. (1998), "The Impact of Trade Liberalisation on the South African Automotive Industry", 1998 TIPS Annual Forum, Johannesburg: Trade and Industry Policy Secretariat.
- Duncan, D. (1997), We are Motor Men, Caithness, Scotland, Whittles Publishing.
- Humphrey, J. et al. (1998), Globalisation, Foreign Direct Investment and the Restructuring of Supplier Networks: The Motor Industry in Brazil and India, in Kagami, M, Humphrey, J and Piore, M (eds) Learning, Liberalisation and Economic Adjustment. IDE, Japan.
- IDC (1998) Sectoral prospects: Growth guidelines for 80 South African industries – 1997 to 2001. CD ROM Version.
- Julius, A. B. (1986), "The development of the motor car industry in South Africa, with special reference to the first three phases of the local content programme 1961-1976", D. Phil Dissertation, Pacific Western University, California.

NEWSPAPER ARTICLES

Engineering News, June 28-July 2, 1998