MAKING SOUTH AFRICA'S AUTO INDUSTRY'S SUCCESS STORY AN ENDURING ONE

A new wave of investments is coming into South Africa's automotive industry. Toyota SA would be investing approximately $33.2 million in a parts distribution warehouse and a new assembly line in the eastern coastal city of Durban. German auto component group Friedrich Boysen GmbH is putting $16.4 million in a new 10,000 sq. metre plant. BMW will be introducing a third shift at its plant, Mercedes Benz SA has started recruiting for 600 new positions in readiness for the production of its C-class brand in the country. Beijing Automotive Works wants to stake $17.9 million in an assembly plant that will service the whole of sub-Saharan Africa, and another Chinese company is planning to build a truck plant in the Coega Industrial Development Zone in the Eastern Cape.

FIGURES SHOW INDUSTRY IS PREEMINENT SECTOR

The news could not have come at a better time. The industry is recovering from a workers strike between August and September last year which hurt production and export of vehicles. The automotive and components industry accounts for 30 percent of South Africa's total manufacturing output, according to Johan van Zyl, head of the National Association of Automotive Manufacturers of South Africa. The automotive industry is one of South Africa's most important, contributing at least 6 percent to the country's GDP and accounting for almost 12 percent of its manufacturing exports.

Auto assemblers and importers alone had some 31,000 workers on their pay roll in 2012, according to NAAMSA. The component manufacturing industry had about 60,000 workers while 6,000 were employed in the tyre manufacturing segment. The sector was projected to produce 610,000 units of vehicles in 2013 out of which 336,000 units were earmarked for export to Europe, Asia, North America and Africa. The leading importers of South African cars on the continent are Algeria, Nigeria, Zambia, Zimbabwe, Mozambique and Angola. Despite these impressive figures, some stakeholders argue that the growing volume of imported vehicles mainly from Asia and Europe raises the question if the policy gives any advantages to South African stakeholders.

South Africa is the biggest producer of vehicles in Africa, accounting for 76 percent of all the vehicles made on the continent. The top players in the global automotive industry, including Toyota, Renault, BMW, Ford, Volkswagen, General Motors, Nissan, Mercedes Benz, MAN, DAF Trucks, Isuzu and Tata are all successfully operating in the country.

SA BOASTS OF THE AUTOMOBILE SECTOR'S WHO'S WHO

A roll call of the foreign investors operating in the country appears like the top players in the global automotive industry. They include Toyota, Renault, BMW, Ford, Volkswagen, General Motors, Nissan, Mercedes Benz, MAN, DAF Trucks, Isuzu and Tata that roll out products ranging from passenger cars, light, medium to heavy commercial vehicles and buses. Their combined output makes South Africa the biggest producer of vehicles in Africa, accounting for 76 percent of all the vehicles made on the continent. About R38.8 billion ($3.5 billion) was raked in from exports of the products in 2011, according to the Department of Trade and Industry. It is not for nothing that the sector is considered the livewire of the South African economy.

This success story was made possible by the Motor Industry Development Plan, the government's policy introduced in 1995. The MIDP's aim was to increase volumes and employment opportunities by improving its competitiveness and strengthening its integration into the global value chain through increased exports of assembled automobiles and components. The Plan's key policy instrument was an incentive scheme called the Import Rebate Credit Certificate -- a duty rebate given to exporters and importers of assembled vehicles and auto parts. That the policy proved successful is not hard to see when industry figures are considered. For example, total annual production jumped to 532,545 units in 2011 from 388,442 units in 1995, the year of its inception, while the number of exported units surged to 272,457 units in 2011 from 15, 764 in 1995. This is not to mention the socio-economic benefits such as increase in the number of people employed, better pay and equality for workers in a country just coming out of years of institutionalized discrimination against the majority black population. One statistics that is cause for worry for observers, though, was with regards to growing imports of completely built up units of vehicles and components. When the MIDP was introduced in 1995, only 25,339 were imported. By 2011, imports had risen to 362,390, representing approximately 66% of total car sales domestically, DTI said in its South Africa Automotive Industry Report for 2012.

APDP COULD IMPROVE ON MIDP'S SUCCESS

But perhaps in their determination to curtail the trend and further enhance the relevance of the sector, the government in January last year replaced the MIDP with the Automotive Production and Development Programme. The APDP, whose goal is to hit a production milestone of 1.2 million units by 2020, allows for a 25 percent import duty on vehicles and components by 2020. It also offers producers of vehicles and components a 20 percent reimbursement on all investments in productive assets, it introduced a production incentive that encourages domestic value addition and a volume assembly allowance that provides a rebate for manufacturers of at least 50 000 vehicles in a year. How much of a game changer the MIDP would be remains to be seen.

However, one thing that is clear is that the two policies are a product of the institutionalized collaborative effort that takes in the form of discussions held between public and non-public stakeholders at all levels. The automotive cluster is comprised of four main public and non-public entities. The non-public bodies are NAAMSA which represents local auto producers and assemblers as well as marketers of imported new vehicles, the National Association of Automotive Component and Allied Manufactures, representing automotive component manufactures, and organized labour. The public entities are the DTI's sector desks and the Automotive Industry Export Cluster. The AIEC is the automotive sector's export council established by the DTI.

The government policy that encourages proactive approach has helped to drive developments in this sector. These collaborative efforts are constructive as they align different interests with long term government goals and also allows for government to get one consistent voice from industry. Although government policy is the key driver, the vehicle manufacturers "are the guys that you need to keep happy," said an industry stakeholder. It is obvious that the South African govern is making manufacturers happy. Their collaborative approach is what the entire continent needs to successfully industrialize and overcome poverty, hunger and unemployment.

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