UNIVERSITY OF KWAZULU-NATAL

THE IMPACT OF THE MIDP ON THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

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ABSTRACT

In September 1995, the South African government introduced the Motor Industry Development Programme (MIDP) as a means of making the South African automotive industry a competitive orientated industry.

The MIDP over the years has taken account of the international realities facing the motor industry in South Africa with major focus being placed on trade liberalisation, globalisation of markets against the background of rapid technological change, rising customer expectations and markets which were becoming increasingly demanding and fast moving in terms of global trends. But has the core intention of the MIDP, which was to create an internationally competitive, export industry, been lost? The research proposition that the MIDP has lost a bit of ground with regards to focusing on an export-orientated industry is examined in this dissertation.

In this respect, the South African automotive industry, with regards to vehicle and component sales both export and imported, industry growth trends, and the point of view from people working within the South African automotive industry, will be analysed to determine the extent to which the MIDP has lost ground on its original intention.

The results show that the MIDP has had positive spin offs with regards to vehicle exports since its induction in 1995. The results also show that, due to the MIDP, the South African automotive industry has seen a substantial growth in volumes of imported vehicles and components into the industry and how the increase in imported vehicles and components has affected the domestic market and local content. Anticipation of the findings of the study shows that the notion of higher tariffs or restrictions on imported vehicles and components could improve the local content levels in locally manufactured export and domestic vehicles. Recommendations have been made in this regard.

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ABBREVIATIONS

APDP	Automotive Production Development Programme
CBU	Completely Built Up Vehicle
CKD	Completely Knocked Down Vehicle
DFA	Duty Free Allowance
DTI	Department of Trade and Industry
GATT	General Agreements of Tariffs and Trade
IRCC	Import Rebate Credit Certificate
LCV	Light Commercial Vehicle
MIDP	Motor Industry Development Programme
NAACAM	National Association of Automotive Component and Allied Manufactures
NAAMSA	National Association of Automobile Manufactures of South Africa
OEM	Original Equipment Manufacturer
PAA	Productive Asset Allowance
SKD	Semi Knocked Down Vehicle
VEP	Value of Export Performance
WTO	World Trade Organisation

CHAPTER ONE

INTRODUCTION AND PURPOSE OF THE STUDY

1.1 Introduction

The forces increasing the globalisation of some industries are forces likely to affect the structure of an industry, sector or market (Johnson and Scholes 2002).

The stagnant performance of the South African automotive industry prior to 1995 led to a process of structural changes, aimed at enhancing competitiveness and increasing value-added production and exports in the industry (Franse 2006). The South African government in the form of the Motor Industry Development Programme promoted structural changes to the domestic motor industry by opening up the economy to international competition through a programme of tariff reduction and export promotion (Franse 2006).

This study will review the extent to which the MIDP has affected the automotive industry since its inception in 1995. It will also review the sentiments of 40 respondents on the MIDP and their confidence in the MIDP going forward.

1.2 Problem statement

The purpose of this study will be to look at how the MIDP has affected the South African automotive industry since its inception in September 1995. More importantly,

by reporting on the effects of the MIDP on the automotive industry over the years, the study will also try to attempt to determine the sentiment and thoughts of people working within the automotive industry on the MIDP.

South Africa's isolation under apartheid due to trade boycotts and sanctions resulted in high cost and uncompetitive manufacturing production. The industry was highly inward orientated and a large number of makes and models were produced in low volume at relatively high cost (DTI 2004).

The MIDP was implemented in 1995 to reshape the future direction of the South African automotive industry. Since the inception of the MIDP, The South African automotive industry has not only accepted the challenges posed by global integration but, in a relatively short period of time, succeeded in many of the objectives of the MIDP and transformed itself (South Africa - Automotive: Motor Vehicle Manufacturing 2002).

Erwin (2000) stated that since its inception in 1995, the MIDP has taken account of the international realities facing the motor industry in South Africa with major focus being placed on trade liberalisation, globalisation of markets against the background of rapid technological change, rising customer expectations and markets which were becoming increasingly demanding and fast moving in terms of global trends (South Africa - Automotive: Motor Vehicle Manufacturing 2002).

Recently, however, the MIDP has come under fire in that due to the export/import complementation framework of the MIDP whereby the credits gained by export

companies can only be used to import vehicles and components (Furlonger 2007), the local manufacturing companies have seen a severe increase in imported vehicles and components and a steep drop in business potential and opportunity, which in turn has seen a drop in the local content used in exported vehicles and components (Auto Engineering and Spares 2008).

It is in light of this that the study proposes to look into what measures people within the automotive industry are asking the Department of Trade and Industry (DTI) to incorporate in order to stem the high levels of imported vehicles and components into the South African market.

In order to evaluate and analyse the data for this problem statement, the study will employ a method of quantitative research whereby empirical data will be gathered by means of a detailed questionnaire that was sent out to people working in the South African automotive industry.

Anticipation of the findings of the study shows that the notion of higher tariffs or restrictions on imported vehicles and components could improve the local content levels in locally manufactured export and domestic vehicles as well as components and that ultimately this will affect the success of local companies competing with international manufactures.

1.3 Research objective of the study

The specific objectives of the study are:

- To establish the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Programme (MIDP).
- To test the extent to which these people believe the MIDP has affected the South African automotive industry and whether or not they are confident in the Programme going forward.
- To determine whether people in the automotive industry believe that higher tariffs or restrictions need to be imposed on imported vehicles and components.

1.4 Outline of the study

The study is divided into 5 chapters of which the introductory chapter identifies the problem definition that is to be researched and the aim of what the study hopes to achieve. The remaining 4 chapters are organised as follows:

1.4.1 Chapter 2 – Literature Review

The literature review incorporates the theories for introducing the MIDP and looks at the effects it has had on the South African automotive industry since its inception in 1995. The MIDP has been seen to be the driving force behind the substantial growth that has been experienced over the years in the South African automotive industry but has lately come under fire due to the drop in domestic automotive sales and local manufacturing of automotive components. The literature delves into the reasons why

the MIDP was implemented, how it works and how it has affected the automotive industry both positively and negatively.

1.4.2 Chapter 3 – Research Methodology

The research methodology describes the methodology employed in the investigation of how people working in the automotive industry believe the MIDP has affected the automotive industry since its implementation in 1995 and their confidence in the MIDP going forward.

The method of data gathering is also discussed, with a strong emphasis on reliability and soundness.

1.4.3 Chapter 4 – Research Finding

This chapter contains the results and analysis of respondents' views and sentiments about the MIDP and its affects on the automotive industry.

The main source of data was gathered through the use of a questionnaire. It was intended that people who work in the automotive industry at middle to senior management level could answer the questionnaire.

The questionnaire was sent out to people at middle to senior management levels throughout the South African automotive industry. A total of 40 people responded to

the questionnaire. The 40 respondents were from the KwaZulu Natal, East London and Port Elizabeth regions.

1.4.4 Chapter 5 – Conclusion and Recommendations

The data is discussed in this chapter, leading to recommendations on how to improve the working of the MIDP. The study then concludes with an assessment of the extent to which the data has explored the problem statement and addressed the objective of the research.

1.5 Conclusion

The MIDP was implemented in 1995 to reshape the future direction of the South African automotive industry. Chapter 2 will review literature on how the MIDP has affected the automotive industry since its inception in 1995 and how it is affecting the industry of late.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The South African government's MIDP is widely regarded as a major success of South Africa's post-apartheid trade and industrial policies (Flatters 2005). Rapid export growth in the automotive industry has been experienced since its inception in 1995 (Black and Bhanisi 2006). This chapter will review the literature on how the MIDP contributed towards the export growth in the SA automotive industry from 1995 through to 2008, but more so, this chapter aims to analyse how the MIDP has played a role in the growth of imported components and vehicles in the South African automotive industry and the effect that these imports are having on the domestic market.

During the process of completing this study, the DTI did in fact release its new Automotive Production Development Programme (APDP), which is scheduled to replace the current MIDP in 2013. The main difference in the APDP framework compared to that of the MIDP is that the APDP will introduce a "Production Incentive" strategy as opposed to an "Export Incentive" strategy that is promoted by the MIDP. Similarly to the MIDP, the APDP will also carry through the low 20% import duty on CKD's and the 25% import duty on CBU's until 2020 when the programme is scheduled to be revised.

2.2 Reason for the MIDP introduction

In the era when the apartheid regime began to suffer the effects of international isolation and sanctions, the automotive industry operated at levels of productivity, quality, and innovation well below international best practice (Joffe, Kaplan, Kaplinsky and Lewis 1995).

The automotive industry boasted a supremely inefficient sector with tariffs as high as 115% of imports, little investment, variable quality and outdated technology (Financial Mail 2007: 41). For a relatively small passenger and commercial vehicle market there was a proliferation of domestically manufactured model varieties, produced and sold at costs well above those in more liberalised markets. Domestic firms supplying into this market where characterised by low volumes, and short run production cycles, which when benchmarked against other international companies, showed the SA firms to be some way off with regards to both competitive pricing and international operational standards (Kaplinsky & Morris 1997).

In September 1995, the government implemented the MIDP which was a policy framework designed to support the growth of the automotive industry under a liberalised trade environment (Kaggwa, Pouris and Steyn 2007).

2.3 Aim and objective of MIDP - Overview

The aim of the MIDP was to create an internationally competitive, export orientated, automotive industry that could compete on a global scale with other international manufacturers (Franse 2006).

The programme consisted of four principle elements:

• A gradual reduction in import duties on both vehicles and components,

• An export-import complementation scheme under which vehicle and components exporters could earn tradable Import Rebate Credit Certificates (IRCCs) to offset duties on imported vehicles and components,

• Access to the standard duty drawback programme for exporters, under which all import duties paid on components and intermediate inputs used in exported vehicles and components could be rebated, and

• A duty free allowance on imported components of 27 percent of the value of vehicles produced for the domestic market (Flatters 2005: 2)

Lorentzen, Robbins and Barnes (2004: 8) argued that the initial form of the MIDP was to secure the investment commitment of the major Original Equipment Manufacturers (OEMs) with an existing manufacturing presence in SA.

Lorentzen *et al* (2004: 8) also stated that the MIPD was largely negotiated with these key role players, and the government pursued it despite concerns from trading partners that it contravened the World Trade Organisations (WTO) commitments.

The objective behind the MIDP was to provide high quality affordable vehicles, provide sustainable employment and through increased production contribute to

economic growth (Department of Trade and Industry: 2001). Further to this the MIPD sought to encourage domestic based OEMs to reduce the range of models they produced and to allow the OEMs to earn import credits by expanding exports of the reduced range of models with significant local content. Lorentzen *et al* (2004: 8) said: "Thanks to the so-called Import Rebate Credit Certificates (IRCCs), the OEMs could therefore bring in a fuller range of vehicles from other plants around the world for sale in South Africa at a reduced duty level."

2.4 Mechanisms of the MIDP

In order to create the competitive environment the MIDP was intended for in the South African automotive industry, a route had to be chosen which would enable the SA market to compete with global competitors (Pitot 2008).

The route chosen to encourage this competitiveness was to gradually reduce the import duties pertaining at the time, from levels over 100%, down to levels accepted by the General Agreement on Trade Tariffs (GATT). This latter level was important as the GATT was about to become the WTO and the South African government had every intention of being WTO friendly (Pitot 2008).

Since its inception in September 1995, the MIDP has been through two reviews, the first in 1999 and the second in 2003. The MIPD has just seen its third review concluded and released in 2008. The reviews were done to give a longer planning horizon to participants and to address some of the imbalances, which had crept into the programme (Pitot 2008).

Pitot (2008) also states that the MIDP's essentiality was to lay out a schedule for reducing import tariffs for completely built up (CBU) vehicles and completely knocked down (CKD) components for cars and light commercial vehicles.

CBU medium and heavy vehicles above 3.5 tonnes, may be imported at a duty of 20% and components for these vehicles may be imported duty free, except for tyres which incur only some small component duty fee. Semi-knocked down (SKD) vehicles may be imported at the CBU rate, but imported second hand vehicles are not allowed (Pitot 2008).

Table 2.1 shows the tariff schedules that passenger cars and light commercial vehicles (LCV) have been and will be subjected to since 2003 up to 2012.

Table 2.1: The Tariff Schedules

YEAR	CBU (%)	CKD (%)
2003	38	29
2004	36	28
2005	34	27
2006	32	26
2007	30	25
2008	29	24
2009	28	23
2010	27	22
2011	26	21
2012	25	20
CBU = completely built up & CKD = completely knocked down		

Adapted from: National Association of Automotive Component and Allied Manufacturers (NAACAM) 2008.

As can be seen by what is depicted in Table 2.1, the tariff schedules on CBU vehicles and CKD components for cars and light commercial vehicle show a significant drop in import tariff % from the years 2003 to 2012.

There are three mechanisms through which companies, who are registered on the MIDP, may reduce the duty payable shown in Table 2.1. These mechanisms are:

- The Duty Free Allowance (DFA);
- An import/export complementation scheme;
- The Productive Asset Allowance (PAA).

The DFA is a simple calculation, which allows components to the value of 27% of the ex-factory value of the vehicle to be imported free of duty (Pitot 2008).

The import/export complementation scheme allows for reductions of import duties on cars and LCVs according to values exported. For every Rand of CBU exported, a percentage determined by the Value of Export Performance (VEP) of CBUs may be imported free of duty. For every Rand of components exported, a percentage determined by VEP of components may be imported duty free, or, 0.6 times this value of CBU vehicles may be imported duty free. The VEP started at 94% in 2003 and will reduce by 4% per annum to 70% by 2009, where it will remain (Pitot 2008).

The reduction mechanisms are controlled by Import Rebate Credit Certificates (IRCCs). These certificates are issued to registered exporters once the foreign funds have been restored and can be transferred or sold by the exporter to a registered importer (Pitot 2008).

Pitot (2008) also explains that the final duty paid is the *ad valorem* fiscal duty, which is applicable to all cars and light commercials. The fiscal duty is an escalating percentage, calculated on a sliding scale, based on the retail price regarding locally produced vehicles or landed costs in the case of imported vehicles and ranges from half a percent to twenty percent and cannot be rebated by the mechanisms listed above. In the case of imported vehicles, however, the landed cost is reduced when the import duty is rebated.

An example of a light vehicle duty calculation for 2008 can be seen in Table 2.2 below.

Table 2.2 Duty Calculation – 2008

	CKD	**CBU**
Wholesale/import value	100000	100000
Local content	60	0
Import content	40000	0
Component export (IRCC value)	10000	10000
Credit @ 60% of 74% for CBU	N/A	4440
Credit at 74% for CKD	7400	N/A
CBU duty @ 29% of (100K – 4440)	N/A	27712
DFA @ 27% of wholesale	27000	N/A
CKD duty @ 24% of 40K – 27K – 7.4K	1344	N/A

Adapted from: National Association of Automotive Component and Allied Manufacturers 2008.

There is a reduction in the VEP, which applies to the platinum group metal content of catalytic converters whereby only 40% of the precious metal content may be included in the calculation (Pitot 2008).

In this case, if the component in the above duty calculation (Table 2.2) were a catalytic converter, then the value of the precious metal in it would be reduced by

60%. If the metal content were 45%, giving a value of R4500, then the credit would be reduced by 60% of R4500 multiplied by 74% factor for component imports, which would be R1998. In practice, the importers could continue to apply further IRCC deductions until the duty is zero (Pitot 2008).

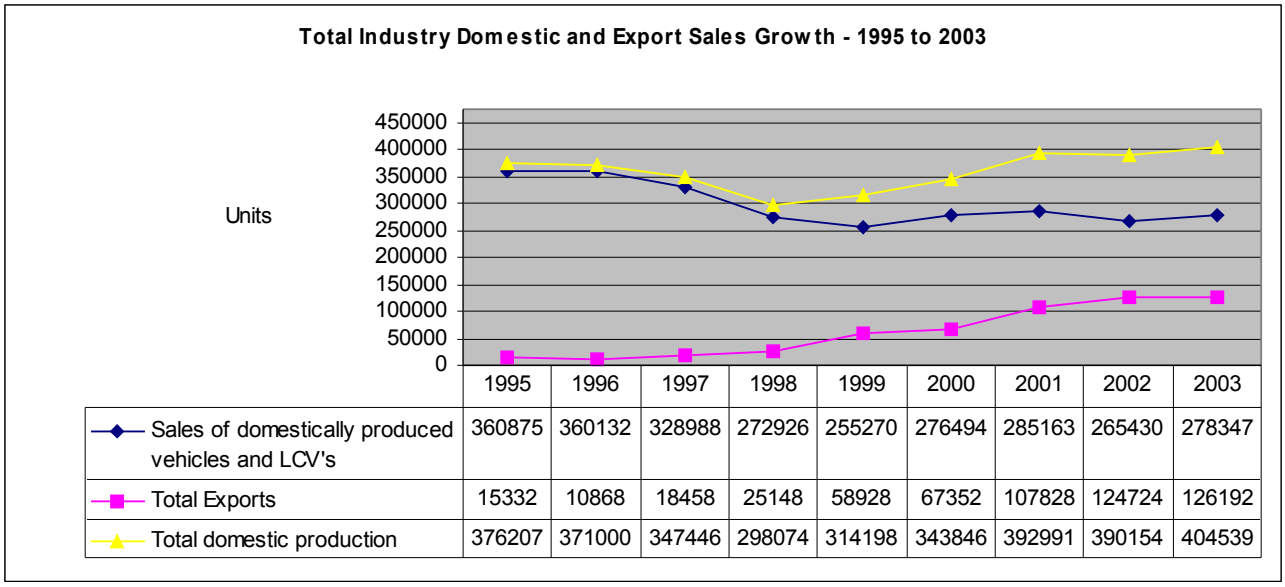
2.5 The impact of the MIDP on the SA automotive industry

Since the inception of the MIDP in 1995, Competitiveness in both the vehicle and component manufacturing sub-sectors appears to have improved significantly since 1994, especially for the more export oriented segments (Barnes, Kaplinsky and Morris 2004).

The MIDP's main policy elements of tariff reduction and export-import complementation are generally credited to have played a very significant role in promoting competitiveness and export expansion in the SA automotive industry (Black *et al* 2006).

Automotive exports as a percentage of total South African exports saw significant growth over a 10 year period since the introduction of the MIDP in 1995, with vehicle exports rising from 4 percent of total exports in 1995 to more than 13,5 percent in 2005 (Davis 2007).

Figure 2.1. Shows the significant impact that the MIDP had on the South African vehicle output and exports from 1995 to 2003.



	1995	1996	1997	1998	1999	2000	2001	2002	2003
Sales of domestically produced vehicles and LCV's	360875	360132	328988	272926	255270	276494	285163	265430	278347
Total Exports	15332	10868	18458	25148	58928	67352	107828	124724	126192
Total domestic production	376207	371000	347446	298074	314198	343846	392991	390154	404539

Figure 2.1: Domestic OEM vehicle sales and exports by volume – 1995 to 2003

Source: Compiled using data from NAAMSA 2nd Quarterly review – 11 August 2008.

As depicted in Figure 2.1, the automotive industry saw vehicle exports grow from the inception of the MIDP in 1995 to 2002. Vehicle exports grew from 4% of total domestic vehicle production to 32% in just 7 years. Following the sales boom of 1995 and 1996, the emerging market crisis and international financial market instability in 1997 led to the imposition of very high interest rates in South Africa, which severely impacted on the domestic market for vehicles (DTI 2000: 6).

The SA automotive components industry also benefited with the introduction of the MIDP and, like with vehicle exports, also saw substantial growth over the same seven years as depicted in Figure 2.2.

In both categories, however, 2003 saw a levelling off of exports and in fact the SA automotive components industry saw the value of exported components drop by R1614000.

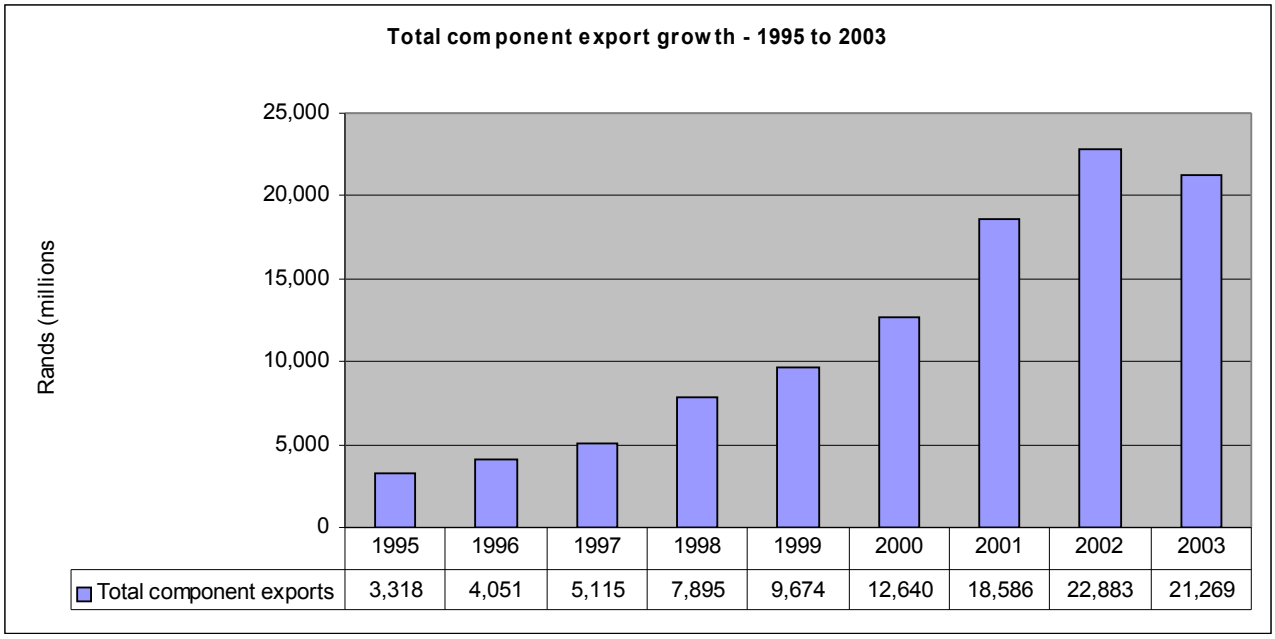


Figure 2.2: Domestic component exports by Nominal Value (R millions) – 1995 to 2003

Adapted from: B&M Analysts, April 2008. Compiled using data from dti/TISA.

A review of the MIDP was brought about in 2003 because Multi National Automotive companies, which are described by BNET Business Dictionary as "companies that operate internationally using subsidiaries or production facilities in more than one country," required clarity, in general terms, on the South African governments approach to the MIDP up to and post 2007 due to developments surrounding various trade initiatives and long term strategic planning needs of these Multi-National companies and their South African subsidiaries. The review was concluded and the MIDP provisions were extended through to 2012 (South Africa - Automotive: Motor Vehicle Manufacturing 2002).

After the announcement that the MIDP would carry through to 2012, the automotive industry saw a phenomenal increase in investment, domestic sales and export growth (SouthAfrica.info reporter 2008).

In 2004, GMSA invested $50-million in plant and equipment upgrades at its plant and a further $80-million was invested in the launch of new Isuzu KB in the same year.

In 2004 Volkswagen SA made an announcement that they would be introducing a R25-billion export programme that will see the company exporting about 2 300 of its new Golf 5 cars each month through 2009, mostly to Japan and Australia, but also to New Zealand, Brunei, Singapore, Sri Lanka, Hong Kong, Indonesia and Malaysia (SouthAfrica.info reporter 2008).

Other announcements by car manufacturers in 2004:

* Ford announced that it would be investing R1-billion in starting a local export programme. The company said this would involve doubling production capacity at its Pretoria plant to about 80 000 units a year.

* DaimlerChrysler confirmed that the new Mercedes-Benz C-Class would be manufactured in SA from 2007. The company plans to almost double production at its East London plant to roll out up to 80 000 units a year, a large portion of which will be exported.

* Nissan announced that it would begin exporting fully built-up Hardbody one-ton bakkies to Europe, Singapore, Australia and New Zealand from August 2005.

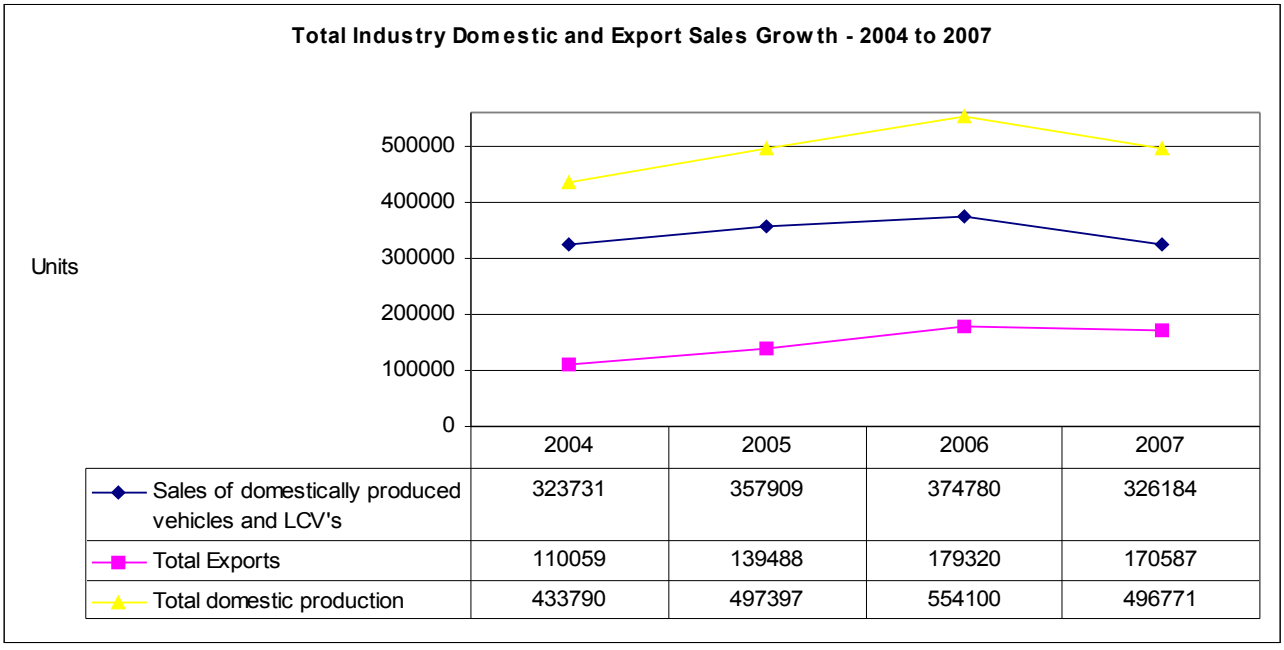
* Tata Motors, India's second-largest car manufacturer, invested some R40-million in a bus assembly factory in Johannesburg (SouthAfrica.info reporter 2008).

In April 2005, General Motors awarded its South African arm a contract worth US$3-billion (around R18-billion) to manufacture a new global version of its Hummer

sports utility vehicle - the H3 - for export to markets in Europe, Asia Pacific, the Middle East and Africa.

Then in May 2005, Toyota South Africa announced an increased export drive that will see the company continuing its Corolla export programme to Australia - and also exporting a new light commercial vehicle and sports utility vehicle to Europe and Africa as part of Toyota's global IMV (innovative international multipurpose vehicle) project (SouthAfrica.info reporter 2008).

The SA Automotive industry saw significant growth in both domestic and export sales from both vehicle and component manufacturers in the years 2004 up to 2007. This growth can be seen in figures 2.3 and 2.4 respectively.



	2004	2005	2006	2007
Sales of domestically produced vehicles and LCV's	323731	357909	374780	326184
Total Exports	110059	139488	179320	170587
Total domestic production	433790	497397	554100	496771

Figure 2.3: Domestic OEM vehicle sales and exports by volume – 2004 to 2007

Source: Compiled using data from NAAMSA 2nd Quarterly review – 11 August 2008.

As depicted in Figure 2.3, export sales of South African produced motor vehicles in 2006 improved by around 28% if compared to the volumes sold in 2005. The export volumes in 2007, however, saw a slight decline in numbers. This drop in numbers could be related to the fact that virtually no vehicles were produced for 5 months in 2007 at the Daimler Chrysler Factory in East London, as their factory was under going refurbishment and preparation for the production of the new Mercedes Benz C Class (Vermeulen 2007).

The same can be seen in Figure 2.4 where domestic component exports also increased by around 28% from the year 2004 up to the end of 2006.

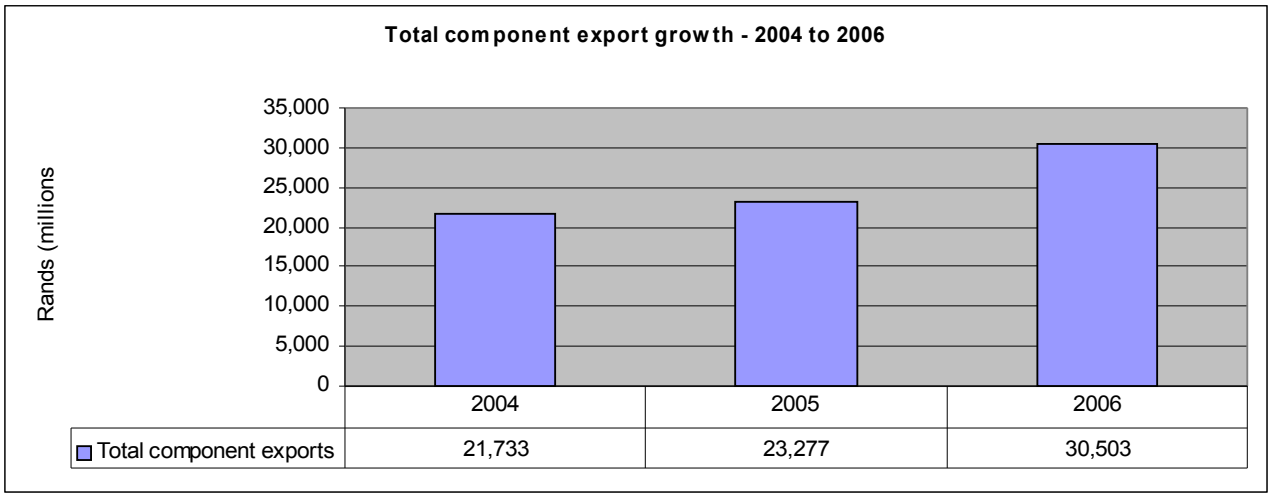


Figure 2.4: Domestic component exports by Nominal Value (R millions) – 2004 to 2006

Adapted from: B&M Analysts, April 2008. Compiled using data from dti/TISA.

Since 1995 to 2007 the automotive industry in South Africa has seen substantial growth, as depicted in Figures 2.3 and 2.4. The chairman of National Association of Automobile Manufacturers of South Africa (NAAMSA), Dr. Johan van Zyl (2008),

said " Industry exports of SA produced motor vehicles is expected to reach a record 300,000 units this year which together with vehicles produced for the local market will translate into record industry production for 2008 of over 600,0000 units."

On the flip side of the coin, however, the MIDP has also played a part in the significant growth of imported vehicles and components into the South African automotive industry. Venter (2008) says, "South Africans' growing appetite for new cars – persisting until 2007 when the consumer boom started to fizzle out – has also seen a growing number of vehicle badges being imported over the last few years."

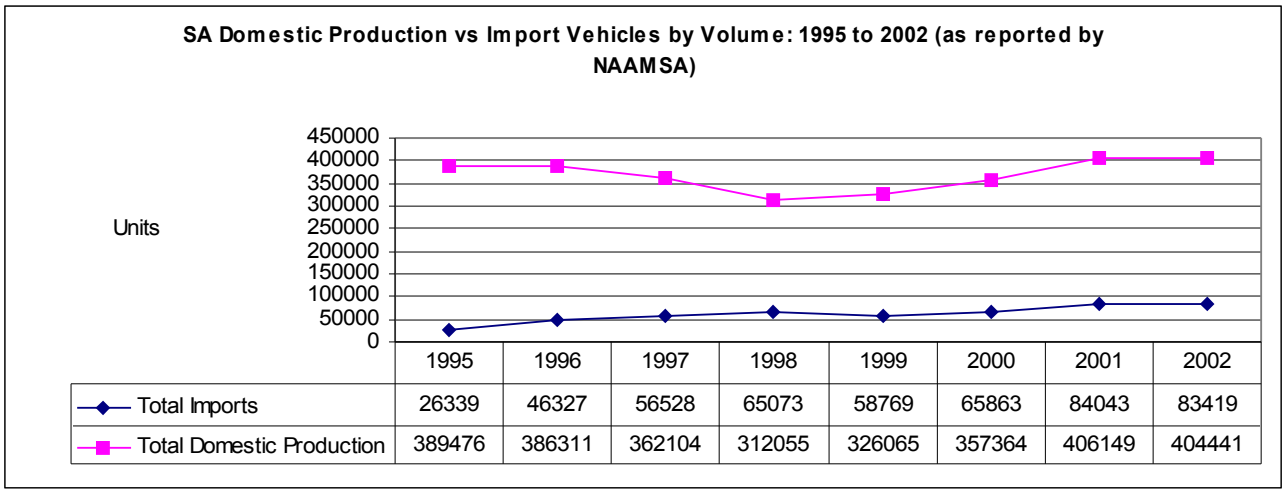
In simple terms, the MIDP is an import/export complementary arrangement, whereby the local content value of components or built-up vehicles exported, earn credits, which can be used to rebate import duties on components and vehicles. This means several vehicle manufacturers use their credits to import models, not manufactured locally, from their parent companies (Venter 2008).

2.6 Concerns of low import duties

The original intention of the MIDP was to create an internationally competitive, export orientated industry (Flatters 2005). The core of the programme was to gradually reduce import duties on built up vehicles and LCVs, which in 2007 where subject to a 30% duty, falling to 25% by 2012 and the duty on imported components dropping to 20% over the same period (Barnes and Black 2003).

As a result of motor companies being rewarded with duty rebates on imports, Lorentzen (2004) reported that the imported levels in the automotive industry also

grew under the new liberal trade arrangements set up by the DTI with the MIDP. Imported units, as depicted in figure 2.5, grew from 6.5% in 1995 to around 23% of the total domestic market sales in 2002. Following the emerging market crisis of 1997 that resulted in the drop in domestic production from 1996, falling interest rates and innovative financial packages in 2000 and 2001 gave impetus to the rise in new vehicle sales (DTI 2002a: 9)



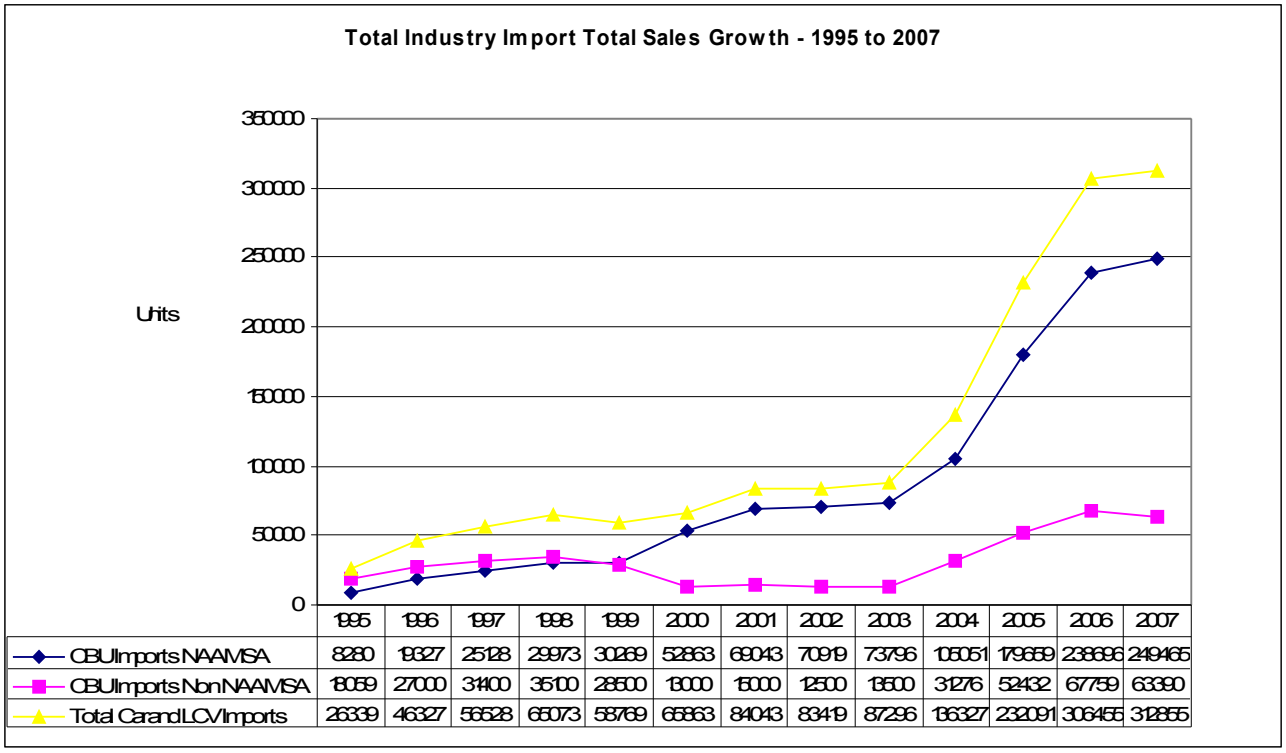
	1995	1996	1997	1998	1999	2000	2001	2002
Total Imports	26339	46327	56528	65073	58769	65863	84043	83419
Total Domestic Production	389476	386311	362104	312055	326065	357364	406149	404441

Figure 2.5: Total Imports vs Domestic OEM sales by volume

Souce: Compiled using data from NAAMSA 2nd Quarterly review – 11 August 2008.

At the very worst, Furlonger (2007: 41) argues that imports were expected to make up 35% of the total automotive market, instead, in 2006 imports accounted for 55% of the domestic new car sales (Financial Mail 2007: 41). The reason for this growth is that export credits can only be used to import vehicles and components and therefore companies feel obliged to buy in as much as their credits allow (Financial Mail 2007: 41).

Figure 2.6 shows the extent to which imported vehicles into the SA automotive industry grew from the inception of the MIDP to 2007. Since 2004, positive macroeconomic fundamentals, positive consumer and business sentiment, new vehicle price deflation, attractive incentives, and the abundance of new product offerings have been the main driving forces behind the buoyant market (NAAMSA 2006: 11). This trend is also indicative of the aim of the MIDP to encourage domestic companies to specialise in a few high volume models, obtain economies of scale benefits to export competitively and in turn import the models not manufactured in South Africa (DTI 2004: 32).



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CBU Imports NAAMSA	8280	19327	25128	29973	30269	52863	69043	70919	73796	106051	179659	238696	249465
CBU Imports Non NAAMSA	18059	27000	31400	35100	28500	13000	15000	12500	13500	31276	52432	67759	63390
Total Car and LCV Imports	26339	46327	56528	65073	58769	65863	84043	83419	87296	136327	232091	306455	312855

Figure 2.6: Total import vehicle sales growth

Source: Compiled using data from NAAMSA 2nd Quarterly review – 11 August 2008.

As depicted in figure 2.6, the number of CBU imports can be seen to rise steadily from 26 thousand vehicles in 1995, the year of inception of the MIDP, to over 312

thousand vehicles in 2007. This increase in total imported vehicles results in a 1200% increase in imported vehicles into South Africa over a 12-year period.

Black *et al* (2006) reported that the "total value of automotive imports increased from R18.0 billion in 1996 to R73.3 billion in 2005. Further to this, the value of imported vehicles increased even more sharply, from only R2.8 billion in 1996 to R28.3 billion in 2005, accounting for nearly 40% of the domestic market."

Further to the above, exports in 2007 amounted to 76.6 billion rand, with vehicles responsible for R28.5 billion of this figure, and components R39.1 billion. Vehicle and component imports on the other hand were valued at R102 billion (Venter 2008).

The result of this increase in imported vehicles and components has been the substantial growth in the automotive industry's trade deficit – the gap between imports and exports – which has moved from an alarming trade deficit of just under R30 billion in 2006 to a greater deficit of R34.6 billion for 2007 (Venter 2008).

Figure 2.7 compares industry vehicle sales of domestic and imported vehicles for the period 1995 to 2007.

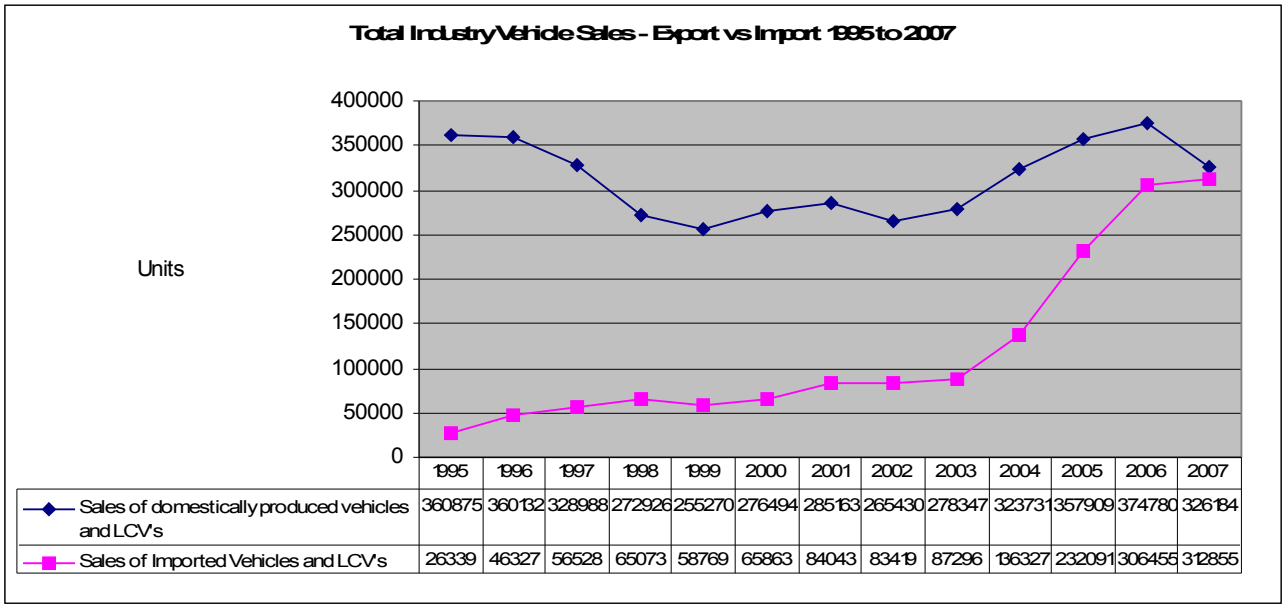


Figure 2.7: Industry vehicle sales comparison – Domestic vs Imported

Source: Compiled using data from NAAMSA 2nd Quarterly review – 11 August 2008.

The significant increase of imported vehicles into the South African market, as shown in Figure 2.7, as well as the increase in imported automotive components, has had an effect on the domestic automotive market. Roger Pitot, the executive director of the National Association of Automotive Component and Allied Manufacturers (NAACAM), stated in 2007, that sales of imported cars grew by 31 percent in 2006, while locally produced car sales only improved by about 1 percent. He states that in 2006 imports made up 57 % of the car market, compared with 49.8% in 2005 and 38.9% in 2004 as stated by Cokayne (2007).

The reason for this growth in imports, was that the MIDP's mechanism of having duties on imported vehicles and components dropping every year until 2012, made imports considerably more competitive than locally manufactured vehicles and components and as the trend shows in Figure 2.7, imports should continue to be competitive and put immense pressure on the local market until 2012.

Apportioned to the increase of imports into the South African automotive market is also the MIDP's removal of minimum local content requirements, which has directly enabled motor companies to source more components from overseas suppliers placing further strain on local component manufacturers (Financial Mail 2007: 41).

The removal of minimum local content requirement has seen the South Africa automotive market average only 35% for total local content in 2007, and this after R3 billion in investments by automotive component manufacturers for the years 2005 and 2006 (Auto Engineering and Spares 2008: 38).

In comparison to South Africa's 35% local content average, 2007 saw both Thailand and Australia's automotive industry' achieve local content averages of more that 80% and 55%, respectively, for the same year (Auto Engineering and Spares 2008: 38).

Stewart Jennings, president of NAACAM, has stated concerns on behalf of organisations belonging to the NAACAM, on how the low percentage of local content and the fact that 60% of local sales in 2007 was made up of passenger imports, is taking away jobs from local assembly plants. Coupled with a pending recession in the automotive industry and a drop in business confidence amongst manufacturers in the industry, Jennings states that restrictions should be imposed on the number of vehicle imports that are coming into South Africa (Auto Engineering and Spares 2008: 38).

In regard to the above statement, Table 2.3 shows the significant decline in employment levels that the new vehicle manufacturing industry has experienced since 2007.

Table 2.3 Employment Levels and Trends

	Industry Total		
	2007	**2008**	**YOY Difference**
Last pay week, April	38623	35955	-2668
Last pay week, May	38448	36164	-2284
Last pay week June	38173	36059	-2114

Source: Compiled using data from NAAMSA Quarterly review – 11 August 2008 / 6 August 2007.

Barnes, Kaplinsky and Morris (2005), believed that in some instances it could possibly be argued "that the MIDP creates a duty-free environment for South African consumers—i.e. that importers pass on all the duty savings from their use of IRCCs to domestic buyers and that consumers in effect face world prices in the South African market for motor vehicles".

Flatters (2005), however, states that "discussions of market pricing with South African vehicle sellers suggest that current prices are higher, not lower, than the duty-inclusive price. The subsidies are paid for by domestic consumers of vehicles in the form of restricted choice and higher prices. The system of duty credits on exports means that consumers subsidize not only vehicles produced for the domestic market, but also those produced for export. The import duties that the Treasury foregoes in honoring export IRCC's do not lower the prices paid by domestic consumers."

For the past decade, China's automotive industry has made a name for itself by continuously reporting tremendous economic growth and consistently cheap resources

(Hedderich, Nowak and Ochmann 2005). Hedderich *et al* (2005) more importantly also argue that the Chinese automotive industry has also consistently reported a high percentage average of local content in their products.

As reported by Hedderich *et al* (2005), the consistent high percentage of local content is due to the fact that the Chinese automotive market in 2005 was protected by an 80% tax on vehicles imported from abroad or produced in China with less than 40 percent local added value. In spite of the WTO accession, import taxes dropped to 25% in July 2006 and have remained at 25% since.

The effect that this high tax burden has on the Chinese automotive industry is that it raises market prices in China and reduces the competitive cost pressure on OEMs, which are producing locally (Hedderich *et al* 2005).

Further to this, once a manufacturer exceeds a 40% local content value, the manufacturer is released from the import tax and can then significantly undercut prices of its international competitors and still realize high sales margins. As a result, companies manufacturing in China are in search of China-based suppliers, i.e., fully-Sino companies (with 100 percent Chinese ownership) as well as multinational joint ventures (Hedderich *et al* 2005).

Chinese manufacturing companies, therefore, have had the extremely inviting incentive of being released from any import tax if local content of above 40% is reached and this has a significant impact on the local automotive industry in China. OEM's in China have been required to establish a local supply base where

International component suppliers have had to set up local production and manufacturing plants in China to support the OEM's or the OEM's have had to source and build up fully owned Chinese companies to meet their needs (Hedderich *et al* 2005).

The spin off, according to Hedderich *et al* (2005), is that job creation and business opportunities in China reap the benefit of international markets. On the contrary, the situation currently being experienced in South Africa, according to Black *et al* (2006), sees vehicle manufacturers facing the prospect of the domestic market being eroded away as tariffs are reduced from prohibitive levels to allow more imports into the market.

Similar to the Chinese way of promoting local content, Phase VI of the policy development programme, which was introduced into the South African automotive industry in 1989, was also a programme that was aimed to promote investment, improved productivity, minimised price increases and the maintenance of competition (Board of Trade and Industry 1989).

Phase VI marked a significant change in direction of the South African automotive industry in that local content of locally assembled vehicles was not to be measured by mass anymore but rather by the value of domestically produced components fitted to the vehicle. Further to this, if an assembler was assembling a vehicle for export purposes, this was also counted as local content under the Phase VI development policy and this allowed the assembler to reduce actual local content in domestically produced vehicles (Black *et al* 2006).

The Phase VI system worked in a sense that it operated through the obligation of an excise duty of 37.5% on all locally assembled vehicles. The assembler could, however, claim back this duty to 50% of the local content value. Further more if the local content target of 75% was achieved, no duty was payable by the vehicle assembler. A minimum average level of 50% actual local content, irrespective of exports, had to be maintained across the model range but local content was defined very broadly as the ex-works price less foreign exchange used (Black *et al* 2006).

The South African automotive industry at this time also received 100% tariff protection against completely built up (CBU) motor vehicles, which were subjected to a 15% surcharge. As a result, imports of vehicles, spare parts and accessories, were minimal in South Africa (Black *et al* 2006).

Falling protection and export assistance derived from the ability to offset import duties as well as the ability to rebate import duties by exporting, enables importers to bring in vehicles at lower effective rates of duty (Black 2002).

Black (2006) also states that due to the import-export complementation of the MIDP assemblers are able to use import credits to source components at close to international prices, so declining nominal protection on vehicles has to some extent also been offset by reduced protection for components.

This means that there is still a significant incentive to assemble locally but not to manufacture (Black 2002).

Barnes (1999) stated that because the automotive component industry receives only negligible government protection it would be faced with a huge challenge on two fronts. First, its competitiveness to keep foreign imports out and secondly, its need to consolidate relationships with OEM's and facilitate exports.

The negligible support from government and the low tariffs on imported goods have unfortunately limited the ability for local manufacturers to counter act the challenges mentioned above as supported by Van Zyl (2008), who states that "most countries with vehicle markets similar to that of South Africa's, protect their industries with much higher import tariffs and more attractive government support."

2.7 Conclusion

The liberalisation of the South African automotive industry has caused an advanced change in its structure since the implementation of the MIDP in 1995. Domestic component manufacturers and OEM's have had to rapidly improve performance and quality criteria in order to meet the demanding requirements of an intense international automotive market.

The MIDP has often been cited as a South African government success story in that it has helped create a major vehicle manufacturing industry in SA (Bisseker and Furlonger 2007). Vehicle sales volumes and foreign investment in the industry support this citation.

The MIDP has attracted a world-class motor industry into South Africa as a result of the protective government policies that would not otherwise have existed. Without the MIDP the domestic manufacture of vehicles and components would have become out of date and unable to attain global standards and the industry may have become extinct (Business Map Foundation 2003: 1-4).

But the main elements of the MIDP have also had a negative impact on the automotive industry, which has got local manufacturers questioning their confidence in the MIDP going forward.

The low volume, low local content South African assembly industry supplying the domestic market is not very closely integrated with the growth of a large export sector which has been brought about by the MIDP. This lack of integration between the two sectors has brought about the emergence of dualism in the South African automotive industry (Black 2001: 22)

The MIDP incentives have created sizable economic rents and as a result vehicles and components are manufactured with domestic resources whose opportunity costs are much greater than the export revenues earned. These inefficiencies of the incentive regime are not just a transfer from one pocket to another but an economic waste (Flatters 2002: 14; Flatters 2005:10, 13).

The pressure of a falling local content percentage in export and domestic vehicles as well as the continuous increase in imported vehicle sales has seen manufacturers in the South African automotive industry ask for restrictions to be imposed on vehicle

and component imports (Cokayne 2008). The rapid growth of imports into South Africa is an ongoing concern.

The literature has shown that higher import taxes and local manufacture incentives have worked well in forcing OEM's to set up local supply bases which in turn increases the local content percentage of the parts that are exported.

Chapter 3 will look at the research methodology that was used to gather information regarding the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Programme.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Leedy and Ormrod (2005) describe research as a systematic process of collecting data, and interpreting the information or data in order to increase our understanding of the phenomenon about which we are interested.

One embarks on researching a specific phenomenon in order to discover what we need to know in order to understand, explain and predict phenomena (Blumberg, Cooper and Schindler 2005).

In order to gain an understanding of how people working in the South African Automotive industry feel about the role the MIDP has played in the integration of the automotive industry into the global market and their confidence in the programme going forward, a quantitative approach in gathering the research was used.

There are many tools that can be exploited in order to gather the information needed in researching a specific problem. In some instances, however, to answer the research question, one needs to dig deeper in order to get a complete understanding of the topic being researched. It is in these instances that qualitative and quantitative research

methods are used to collect numerous forms of data in order to construct a clearer picture of the situation.

3.1.1 Qualitative Research

Leedy and Ormrod (2005) state that the term qualitative research encompasses several approaches to research that are, in some respects, quite different from one another. Yet all qualitative approaches have two things in common. First, they focus on phenomena that occur in natural settings and second, they involve studying those phenomena in all their complexity.

Researchers that use qualitative research methods often only formulate research questions about the problem at hand. These questions tend to be open-ended questions and it is due to this that the researchers might experience difficulty in identifying the exact methods of investigation they are going to use. Leedy and Ormrod (2005), however, do say that despite the fact mentioned above, qualitative research requires considerable preparation and planning.

It is important to know when to choose a qualitative approach when conducting research on a specific phenomenon. Peshkin (1993: 23-29) believes that qualitative research studies typically serve one or more of the following purposes:

- They can reveal the nature of certain situations, settings, processes, relationships or people.

- They enable the researcher to gain new insights about a particular phenomenon, develop new concepts about the phenomenon and discover the problems that exist within the phenomenon.
- They allow the researcher to test the validity of certain assumptions or generalisations within real world contexts.
- They provide a means through which a researcher can judge the effectiveness of particular policies or innovations.

Regardless of the kinds of data involved, Leedy and Ormrod (2005) believe that data collection in a qualitative study takes a great deal of time and that the researcher should record any potential useful data accurately and systematically. They also say that common to all qualitative studies is a need to identify an appropriate sample from which to acquire data and that a large amount of reliance is put on observations and interviews in sourcing this data from the sample.

Sampling is data that is drawn from many sources e.g., people, objects, audiovisuals and textual material. It is, however, important to realise that sampling needs to be purposeful and that when researchers investigate certain objects or individuals they investigate those objects and individuals that are going to yield the most information about what they are researching.

Observations can take place by the researcher by either being an outsider or a participant in the investigation. Leedy and Ormrod (2005) say that the primary advantage of conducting observations is that it is flexible in that the researcher can take advantage of unforeseen data sources as they surface.

Interviews can yield a great deal of information when used in a qualitative method for gathering data about a certain phenomenon. Leedy and Ormrod (2005: 146) also state that interviews in a qualitative study are rarely structured but instead are either open ended or semi structured.

Qualitative research methods should be used when little information exists on a topic or when certain variables are unknown, because qualitative research can help define what is important and what needs to be studied.

3.1.2 Quantitative Research

Leedy and Ormrod (2005: 179) describe quantitative research as a type of research that involves either identifying the characteristics of an observed phenomenon or exploring possible correlations among two or more phenomenons. Further more to this, Leedy and Ormrod (2005: 179) state that quantitative research does not involve changing or modifying the situation under investigation, nor is it intended to determine the cause and effect relationships.

Survey research is one of the main aspects of quantitative research and involves acquiring information about one or more groups of people – perhaps about their characteristics or previous experiences – by asking them questions and tabulating their answers (Leedy & Ormrod 2005).

Survey research typically employs a face-to-face interview or a telephone interview or a written questionnaire.

Observations and interviews are conducted in quantitative research, however, in quantitative research, unlike qualitative research where for example interviews are often open ended, interviews are more structured and the researcher will ask a standard set of questions and nothing more. Quantitative research interviews also tend to be a lot more formal than the informal nature of qualitative interviews. In quantitative research telephone interviews are also conducted (Leedy & Ormrod 2005).

Telephone interviews are adopted when a researcher needs to get research information from a large sample of people in order to gather the data required to be analysed. This style of interviewing is a lot less expensive than the normal face-to-face interview and it also allows the researcher access to literally anyone who has a telephone (Leedy & Ormrod 2005).

As with observations, in quantitative research this form of information gathering focuses on a particular aspect of certain behaviour whereas in qualitative research observations are usually recorded in great detail capturing a wide variety of information pertaining to the problem.

Another difference between quantitative and qualitative research is the use of paper-pencil questionnaires that are used in quantitative research to gather information from a large number of people, including people that live in different countries. This style of data gathering has the tendency to save the researcher a lot of money with regards to long distance telephone calls or travel expenses and it can also cover a greater

spectrum of sampling in order to get the needed information required for the research (Leedy & Ormrod 2005).

An advantage of questionnaires is that people who participate can respond to the questions more truthfully because they have the assurance that their response will be anonymous, unlike those persons that are put through a personal interview.

This chapter will discuss the quantitative inquiry in detail and explain how it was employed in the research as well as the methods used for data collection.

3.2 Aim of the study

The specific aims of the study, as defined in section 1.2 are to:

- To establish the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Programme (MIDP).
- To test the extent to which these people believe the MIDP has affected the South African automotive industry and whether or not they are confident in the Programme going forward.
- To determine whether people in the automotive industry believe that higher tariffs or restrictions need to be imposed on imported vehicles and components.

3.2.1 Overview

To achieve the aim of the study empirical data was gathered by means of a detailed questionnaire that was sent out to people working in the South African automotive industry at middle to senior management levels.

3.3 The sample

Two types of sampling techniques where used to access sufficient people with the characteristics required for conducting the research.

Purposive sampling, used to access a particular subset of people (Heckathorn 2002), was adopted in the initial phase of the study. Purposive sampling started with the selection of middle to senior managers working in the automotive industry.

Snowball sampling, which is used when there are insufficient people with the characteristics required for the study (Heckathorn 2002), was then used. People that were selected in the purposive sampling phase were asked to refer other people who had similar characteristics and would fit the research requirements.

Forty people working as middle to senior managers in the South African automotive industry took part in the study. A questionnaire (see Appendix 1) was used as the basis for gathering the empirical data needed in conducting the primary research. The list of respondents comprised of 23 people who worked for first tier suppliers in the

South African automotive industry. A first tier supplier is a supplier that invoices the customer directly for goods or services rendered by the supplier (McMellon-Wells 2008). The list of respondents also comprised of 17 people who work for major vehicle manufacturers in South Africa being Toyota, General Motors South Africa and Volkswagen South Africa.

3.4 Data collection

Data was collected with the use of a questionnaire. The questionnaire was developed to bring forth information on the substance and sentiment that people, working in the SA automotive industry, had with regards to the Motor Industry Development Programme (MIDP). A total of 18 questions were posed on the MIDP to test the extent to which these people believe the MIDP has affected the SA automotive industry and whether or not they are confident in the programme going forward.

3.5 Procedure for data collection

Respondents were contacted either directly or by e-mail and requested to complete the questionnaire. It is intended that people at any level in the SA automotive industry could fill in the questionnaire. All the respondents were very interested and supportive of the research and the timely manner in which the questionnaires were completed supports this notion.

3.6 Data analysis

A total of 40 respondents completed the questionnaire. The responses obtained from each questionnaire were recorded on a spreadsheet (Appendix 2) to facilitate analysis. Each question was analysed and reported in a structured format. The results of the analysis are reported in Chapter 4.

3.7 Conclusion

This chapter has dealt with the research methodology of the investigation with the objective of gathering empirical data on the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Programme (MIDP) and the extent to which these people believe the MIDP has affected the South African automotive industry and whether or not they are confident in the Programme going forward. The data was gathered by means of a detailed questionnaire.

CHAPTER FOUR

RESEARCH FINDING

4.1 Introduction

The aim of the study as defined in section 1.2 was to establish the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Program (MIDP) and to determine whether these people believe restrictions need to be imposed on imported vehicles and components into South Africa.

The literature in Chapter 2 shows that the MIPD has played a significant role in being one of the main catalyst for the growth in exports over the years and the massive influx of capital investment and manufacturing augmentation that has been experienced in the South African automotive industry. However, low import tariffs and export incentives with which credits can only be used to import vehicles and components into the country, have slowly but surely started to put immense pressure on local manufacturing companies which has seen the local content in the South African market only average 37% in 2007 as opposed to the 66% requirement of 1982 set out by the Phase V programme and the minimum requirement of 50% local content set out by the Phase VI programme.

The questionnaire seeks to gather empirical data on the opinions of people working within the South African automotive industry regarding the effects of the MIDP and the confidence that people have in the program going forward.

In the sections that follow, the data gathered through the questionnaire shall be presented and the findings discussed.

4.2 Questionnaire data

The questionnaire (see Appendix 1) was sent out to 40 people working within the South African automotive industry. The respondents were employees of either a first tier supplier of the automotive industry or an employee of an Original Equipment Manufacturer (OEM). The responses are considered in their entirety, and are analysed in Table 4.1.

The information in Table 4.1 below, is read as follows:

- The Question column refers to the question number on the questionnaire. See Appendix 1.
- Responses have been recorded in three categories in Table 4.1. The categories have been based on a scale of 1-10 (1 being "not at all" and 10 being "considerably"), "not at all" responses to the questions have been based on levels 1-4 on the scale and "considerably" responses to the questions have been based on levels 7-10 on the scale. Level 5-6 responses for each question have been included in the table so that the number of respondents per question adds up to 100%. See Appendix 2 for full details.

Table 4.1: Responses relating to the effects of the MIDP on the South African automotive industry

Quest.	Question Asked	Respondents (n=40)		
		Ans. 1-4	Ans. 5-6	Ans. 7-10
1	To what extent has the MIDP contributed towards the integration of the SA automotive industry into the global market since 1995?	0%	17%	83%
2	To what extent has the MIDP brought about challengers for the SA automotive industry due to global intervention?	3%	9%	88%
3	To what extent has the SA automotive industry improved due to this global integration?	0%	25%	75%
4	To what extent has global integration forced the SA automotive industry to continually seek better ways to cope with challengers posed by Globalisation?	0%	0%	100%
5	To what extent has the MIDP contributed towards improving technology transformation in the SA automotive industry?	13%	27%	60%
6	To what extent has the MIDP impacted business in the SA automotive industry?	0%	0%	100%
7	To what extent is the MIDP responsible for the future of the SA automotive industry?	8%	9%	83%
8	To what extent do you feel the MIDP impacted on the price of SA manufactured automotive products from the year 1995 to 2005?	13%	32%	55%
9	To what extent do you feel the MIDP has impacted on the price of SA manufactured automotive products since 2006?	28%	12%	60%
10	To what extent has the MIDP contributed towards the SA automotive industry's competitiveness in the global automotive market?	20%	22%	58%
11	To what extent has the MIDP brought about positive outcomes to the SA automotive industry?	20%	10%	70%
12	To what extent do you believe the standards in the SA automotive industry have improved as a result of the MIDP?	0%	25%	75%
13	To what extent do you believe that low import tariffs have placed the SA automotive industry under competitive pressure due to growing imports?	5%	5%	90%
14	To what extent do you believe restrictions should be imposed on vehicle and component imports?	10%	30%	60%
15	To what extent do you believe export incentives can promote further development in the SA automotive industry?	23%	7%	70%
16	To what extent has the MIDP created an internationally competitive automotive exporting industry in South Africa?	23%	12%	65%
17	To what extent are you confident in the MIDP going forward from 2012?	5%	32%	63%
18	To what extent do you believe the SA automotive industry could have survived without the latest review of the MIDP for 2012 to 2020?	40%	47%	13%

Source: Author compiled using answers from questionnaire used in this study.

As reflected in Table 4.1, 83% of the respondents' (Question 1) consider the MIDP to have been a main driving force behind the integration of the South African automotive industry into the global automotive market. Therefore, a strong enough positive response thus supports the reports that have already made mention to the success of the Motor Industry Development Programme.

Question 2, however, and the respective response, as reflected in Table 4.1, indicate that 88% of the respondents are in agreement that the MIDP has also brought about challengers for the automotive industry even though it has contributed considerably to the integration of the SA automotive industry into global markets.

Figure 4.1 shows the correlation between the respondent's ratings of question 1 and question 2.

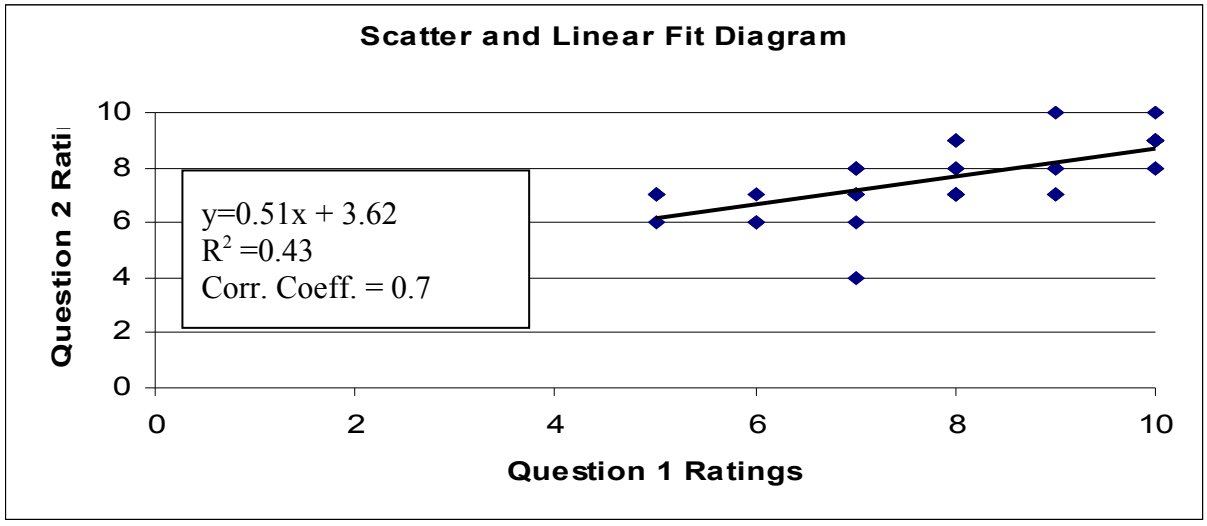


Figure 4.1: Correlation analysis of question 1 and question 2 responses

Source: Author calculations using data gathered from questionnaire used in the study.

The overall shape of the points in Figure 4.1 seems to be characterized by a general linear cluster, which rises upward and to the right, suggesting a positive correlation. The correlation coefficient of question 1 and question 2 is 0.7, which is a fairly strong relationship. The shape of figure 4.1 and the strong correlation coefficient of 0.7 therefore suggest that the respondent's belief that the MIDP contributed towards the integration of the SA automotive industry has strong correlation with the fact that the MIDP also brought about challengers for the SA automotive industry.

75% of respondents to Question 3 as shown in Table 4.1 agree that the South African automotive industry has improved considerably due to the implementation of the MIDP and the integration into the global markets that the MIDP has promoted. Further to this point, 100% of the respondents to Question 4, as shown in Table 4.1, agreed that global integration has forced the South African automotive industry to continually seek better ways to cope with the challenges brought about by the MIDP.

Considering the importance that technology plays in companies being able to remain competitive and being able to meet international quality standards and manufacturing demands, only 60% of the responses to Question 5 agreed that the MIDP contributed towards improving technology transformation in the South African automotive industry.

Contrary to the above, a very prominent 100% of the respondents to Question 6, as depicted in Table 4.1, agreed, nevertheless, that the MIDP had affected business within the South African automotive industry over the years in that 75% of the respondents to Question 12 agreed that due to the MIDP, standards in the South

African automotive industry have been raised, of which 70% of the respondents to Question 11 say the MIPD has brought about positive outcomes for the South African automotive industry.

The MIDP can certainly be considered as the driving force behind the successful integration of the South African automotive industry into the global export and import market. However, how has this benefited the man on the street with regards to value for money products? And what are their sentiments on how the MIDP has affected the price of automotive products since its inception?

The response to these questions show that only 55% of the respondents believed that the MIDP affected the price of SA manufactured automotive products between the years 1995 to 2005 considerably and 13% believed that the MIDP didn't have a considerable affect on the price of products (Table 4.1: Question 8).

Question 9, however, shows that since 2006, 60% of the respondents believe that the MIDP had a considerable effect on the price of SA manufactured automotive products, but also interestingly enough is that 28% of the respondents said that it did not.

Question 10 and the respective response, as reflected in Table 4.1, indicate that only 58% of the respondents are in agreement to the fact that the MIDP contributed towards the SA automotive industry's competitiveness. Considering the drastic drop in local content as well as the drop in domestic sales of locally manufactured vehicles and components as compared to the steep increase in sales of imported vehicles and

components, it is noticeable that the competitiveness of the South African automotive industry has dropped and is currently seriously exposed to the imports market.

Contrary to Question 10, Question 16 and the respective response, as depicted in Table 4.1, shows that 65% of the respondents were in agreement that the MIDP has contributed to the competitiveness of the South African automotive exports industry. This in hindsight could be due to the way question 10 was phrased.

The exports industry in the South African automotive market has seen significant growth over the years. Contributing to this has been the massive investment by OEM's in infrastructure and development in the South African automotive industry. The MIDP has opened these doors and as a result the automotive export volumes from South Africa have increased exponentially. The weaker Rand also contributes to the competitive export nature of the South African automotive industry.

The export/import complementation of the current MIDP and the low import tariffs that accompany imported automotive products has recently become a fast growing concern amongst local automotive manufacturing companies in South Africa. Question 13 and the respective response, as reflected in Table 4.1, shows that 90% of the respondents are in agreement that low import tariffs have put a considerable amount of pressure on the competitiveness of the South African automotive manufacturing industry.

In conjunction with Question 13 and its respective response, Question 14 in Table 4.1, also shows a 65% support of the idea that restrictions need to be put in place on the

amount of imported vehicles and components that are allowed to come into South Africa. The current MIDP encourages automotive companies to export and in return they are awarded with credits, but these credits can only be used to import vehicles and components into South Africa (see Section 2.6), thus being one of the main contributing reason for the drastic increase in imports into the market. Import restrictions could also help in sorting out the trade deficit that the South African automotive industry has seen over the past years. (See Section 2.6).

The integration of the South African automotive industry into the global export market has seen the industry grow substantially over the years. The export incentive of the MIDP has promoted growth and development for several years in South Africa.

Question 15 and the respective response, as depicted in Table 4.1, shows that 70% of the respondents are in agreement that export incentives promote development. However, literature in Chapter 2 shows that the import complementation of the MIDP has slowly started to take its toll over recent years. Import levels have grown and this has slowly but surely taken away job opportunities from local manufacturers in the South African automotive industry and severely eroded the local content levels of locally manufactured components that are used on assembled vehicles for export and domestic use in South Africa.

Question 7 and the respective response, as depicted in Table 4.1, show that 83% of the respondents are in agreement that the MIDP is still responsible for the future of the South African automotive industry. Surprisingly, however, after 83% said that the MIDP was responsible for the SA automotive industries future, only 63% of the

respondents to Question 17, as revealed in Table 4.1, are confident in the MIDP going forward.

Figure 4.2 shows the correlation between the respondent's ratings of question 7 and question 17.

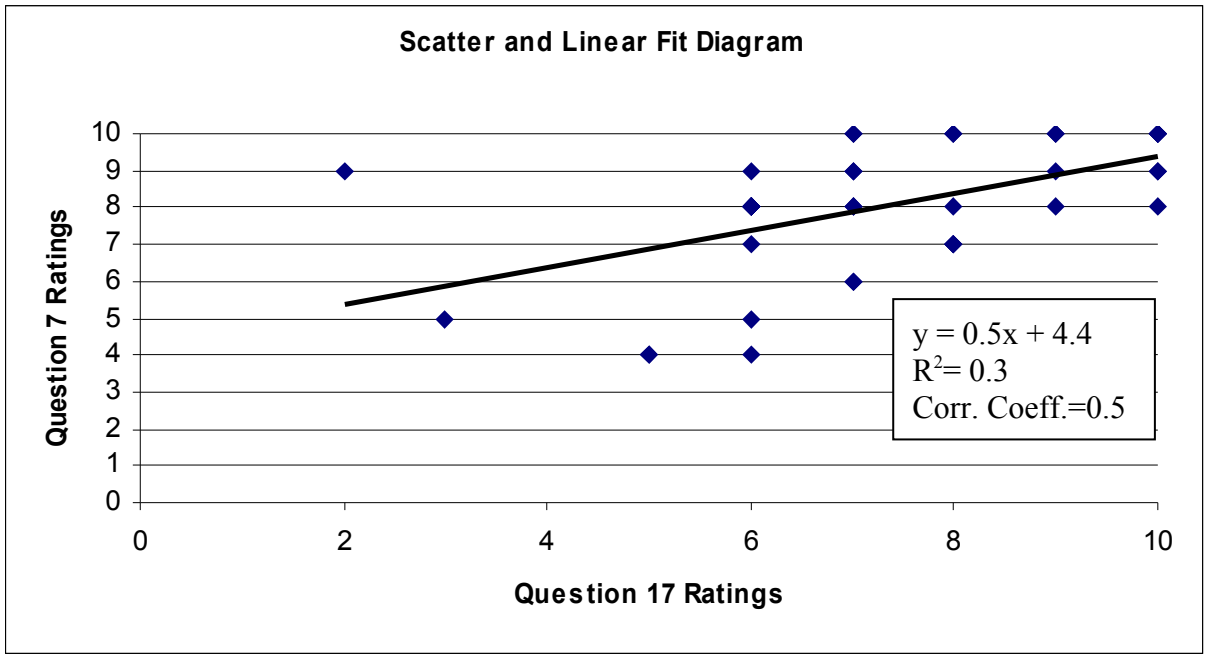


Figure 4.2: Correlation analysis of question 7 and question 17 responses

Source: Author calculations using data gathered from questionnaire used in the study.

The overall shape of Figure 4.2 shows a positive correlation between questions 7 and question 17. However, the correlation coefficient is only 0.5 showing that although the respondents have a strong sentiment that the MIDP is responsible for the future of the automotive industry in South Africa, does not mean that they are entirely confident in it going forward.

This fairly low confidence percentage of respondents is a little surprising considering the success the MIDP has had since its introduction in 1995. But it does highlight a

point and that is people in the industry have lost a bit of faith and confidence in the current MIDP, something which the DTI hopefully has taken into account with the announcement of the programme that will replace the MIDP from 2013 to 2020, that being the Automotive Production and Development Programme (APDP).

The response to Question 18 as presented in Table 4.1 shows that only 40% of the respondents were adamant that the South African automotive industry could not have survived without the latest review of the MIDP and introduction of the new APDP from 2013 to 2020. Seeing that only 13% agreed that the SA automotive industry could have survived, leaves a large number of the respondents very uncertain about what the DTI's programs have in store for the future of the South African automotive industry.

4.3 Conclusion

The research findings from the data gathered through the questionnaire shows that the MIDP has, on a whole, had a positive effect on the South African automotive industry since its introduction in 1995.

However, the data gathered through the questionnaire has also substantiated the fact that people working in the industry, albeit for First Tier Suppliers or Major Vehicle Manufacturing Companies, have slowly also lost confidence in the MIDP of late and in what the future holds for the automotive industry in South Africa.

The main reason, it seems, for this uncertainty and loss in confidence with the MIDP is the significant pressure that imports are putting on the domestic vehicle and component market in South Africa.

The research findings from the data gathered through the questionnaire substantiate this assumption and also substantiate the researchers conclusion that higher tariffs or restrictions on imported vehicles and components should improve local content levels in exported and domestic vehicles and that ultimately this will affect the success of local companies competing with international manufacturers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

As defined in the introduction to this study (see section 1.2), the specific aims were:

- To establish the substance and sentiment of people working in the South African automotive industry with regards to the Motor Industry Development Programme (MIDP).
- To test the extent to which these people believe the MIDP has affected the South African automotive industry and whether or not they are confident in the Programme going forward.
- To determine whether people in the automotive industry believe that higher tariffs or restrictions need to be imposed on imported vehicles and components.

Below are the major conclusions of this study and the recommendations that may be advanced on the basis of these findings.

5.2 Discussion

5.2.1 Substance and Sentiment

The general sentiment of people working in the South African automotive industry regarding the MIDP since its inception in 1995 may be summarised as follows:

- The MIDP is considered to have been a main driving force behind the integration of the South African automotive industry into the global automotive market.
- The South African automotive industry has improved considerably over the years due to the implementation of the MIDP and the integration into the global markets that the MIDP has promoted over the years.
- Global integration has forced the South African automotive industry to continually seek better ways to cope with the challenges of international business.
- The standards in the South African automotive industry have been raised over the years.
- The MIDP has contributed to the competitiveness of the South African automotive exports industry.
- The MIDP has not contributed as successfully to the competitiveness of the South African automotive domestic industry.
- Low import tariffs have put a considerable amount of pressure on the competitiveness of the South African automotive industry.
- Restrictions need to be put in place on the amount of imported vehicles and components that are allowed to come into South African.

- The MIDP is still responsible for the future of the South African automotive industry.
- Confidence levels in the MIDP going forward are fairly low considering how the MIDP is responsible for the future of the automotive industry in South Africa.
- A marginal majority of the respondents believe that the South African automotive industry could not have survived without the latest review of the MIDP and introduction of the new APDP from 2013 to 2020.

5.3 The problem with the MIDP

The export/import complementation of the current MIDP and the low import tariffs that accompany imported automotive products have recently become a fast growing concern amongst local automotive manufacturing companies in South Africa.

The exports industry in the South African automotive market has seen significant growth over the years. The problem with the MIDP in conjunction with the export growth is that the nature of the MIDP, with regards to export credits,

- Encourages companies to import more vehicles into the country as the credits can only be used to import vehicles and therefore companies feel obliged to buy in as many vehicles as their credits allow.
- Further to this burden is that already low tariffs that accompany imported automotive products are also scheduled to drop to lower levels year on year until the year 2012.

These two critical points are placing immense pressure on the competitiveness and survival of the South African automotive industry in that the increased levels of imports are taking jobs away from local assembly plants. The MIDP with its low tariff schedules and export credits almost encourages companies to look at importing automotive vehicles and components without even hesitating to consider localising the manufacture or assembly of parts with local suppliers.

5.4 Recommendations

Arising from the review of the literature, the findings of this study, and the discussions noted above, the following recommendations are put forward.

It is recommended that in order to limit the significant pressure and job loss that imports are creating on the domestic vehicle and component market in South Africa, the DTI needs to look at responding as follows with amendments to the MIDP:

- Import tariffs on CKD and CBU's should be increased from the current 29% level. A slightly higher import duty could encourage vehicle assemblers to look at a local automotive manufacturer or assembler to supply a part rather than only considering importing.
- Implement restrictions on imported vehicles and components so that the inflow of these items into the country is limited making it necessary for OEM's to invest in the development of a local supply base in the country.

5.5 Limitation of study

There is unfortunately limited literature available on the South African automotive industry in general and the MIDP in particular.

The sample size of 40 respondents was adequate for this study but should be extended to more people in the industry. This should not be done using the questionnaire that is shown in Appendix 1 as some of the questions, such as question 10 and question 17, which are not clear and could be interpreted in many ways. Due to the obscurity of these questions, the answers from the respondents could be contradictory to what they really meant. In hindsight these obscurities could have affected the outcome of some of the data, which was analysed in the study.

In hindsight, it is also difficult to make sound conclusions using the data collected using the questionnaire, as the data collected is the personal perspective of the person that answered the questionnaire.

The research for this study was also done in a period of pending recession and drop in business confidence within the automotive industry.

5.6 Future research

Recommendations for future research would be to investigate whether the APDP's production incentive framework has a positive (reduces the number of imports) impact on the level of imported vehicles and components brought into the South African automotive industry after its inception in 2013.

A further recommendation for future research would be to investigate the effects of the APDP's production incentive strategy in the growth of automotive component manufactures in South Africa. Included in this research could also be careful analysis of the impact that the APDP has on domestic vehicle and component prices and whether they are better or worse off competitively when compared to global industries.

Finally, one of the concerns with the MIDP was the drop in local content levels. It is recommended that future research investigate whether the production incentive based strategy of the APDP has a positive affect in increasing the local content use in locally manufactured vehicles and components.

5.7 Conclusion

In order to regain the confidence levels of the automotive industry to those of 1995 to 2005 and even 2006, the MIDP needs to begin limiting the substantial growth patterns of imported goods into the South African automotive market.

The performance of the MIDP over the first 11 years has put the South African automotive industry on the map as an export industry that can meet the demands of a global automotive market. However, of late, and due to the current incentivised criteria of the MIDP, the export success of the South African automotive industry could be the downfall to the domestic assembly and manufacturing market in South Africa. As the literature review in chapter 2 shows, the export/import complementation of the MIDP is putting major pressure on the percentage of local content that is going into new vehicles manufactured in South Africa.

The study identifies that a move away from an export-import incentivised programme like that of the MIDP to the APDP's production incentive framework could be a welcome relief for the South African automotive industry in that it is sure to promote local content initiatives within the industry. Operational efficiency is the key to success and OEM's will most definitely have to start looking at developing a more favourable local supply base.

It is hereby suggested that the study has explored the problem statement of how the MIDP has affected the South African automotive industry since its inception in September 1995. By reporting on the effects of the MIDP on the automotive industry over the years, it is hereby also suggested that the study has determined the sentiment and thoughts of people working within the automotive industry on the MIDP.

APPENDIX 1

Questionnaire on the impact of the MIDP on the South African automotive industry.

It is intended that people who work in the automotive industry at middle to senior management level fill in the questionnaire. By design, this is an individual based survey, not a company based survey.

Are you answering?

As a person working for a major South African vehicle manufacture? (Mark with X)
……..

As a person working for a first tier supplier to a major South African car manufacturer? (Mark with X)
……

Choose only one option above

QUESTIONS

Answer the questions below by circling, underlining, colouring or otherwise highlighting the number that is closest to your position. If you have no answer to a question, please leave the question unmarked. There are 18 questions.

1 To what extent has the MIDP contributed towards the integration of the SA automotive industry into the global market since 1995?

not at all ….1…...2...…3…...4…...5..….6...…7…...8..….9..….10..…. considerably

2 To what extent has the MIDP brought about challengers for the SA automotive industry due to global intervention?

not at all ….1…...2...…3…...4…...5..….6...…7…...8..….9..….10..…. considerably

3 To what extent has the SA automotive industry improved due to this global integration?

not at all ….1…...2...…3…...4…...5..….6...…7…...8..….9..….10..…. considerably

4 To what extent has global integration forced the SA automotive industry to continually seek better ways to cope with challengers posed by Globalisation?

not at all ….1…...2...…3…...4…...5..….6...…7…...8..….9..….10..…. considerably

5 To what extent has the MIDP contributed towards improving technology transformation in the SA automotive industry?

not at all ….1…...2...…3…...4…...5..….6...…7…...8..….9..….10..…. considerably

6 To what extent has the MIDP impacted business in the SA automotive industry?

not at all ….1…...2..…3…...4…...5..….6..…7…...8..….9..….10..…. considerably

7 To what extent is the MIDP responsible for the future of the SA automotive industry?

not at all ….1…...2..…3…...4…...5..….6..…7…...8..….9..….10..…. considerably

8 To what extent do you feel the MIDP impacted on the price of SA manufactured automotive products from the year 1995 to 2005?

not at all ….1…...2..…3…...4…...5..….6..…7…...8..….9..….10..…. considerably

9 To what extent do you feel the MIDP has impacted on the price of SA manufactured automotive products since 2006?

not at all ….1…...2..…3…...4…...5..….6..…7…...8..….9..….10..…. considerably

10 To what extent has the MIDP contributed towards the SA automotive industry's competitiveness in the global automotive market?

not at all ….1…...2..…3…...4…...5..….6..…7…...8..….9..….10..…. considerably

11 To what extent has the MIDP brought about positive outcomes to the SA automotive industry?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

12 To what extent do you believe the standards in the SA automotive industry have improved as a result of the MIDP?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

13 To what extent do you believe that low import tariffs have placed the SA automotive industry under competitive pressure due to growing imports?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

14 To what extent do you believe restrictions should be imposed on vehicle and component imports?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

15 To what extent do you believe export incentives can promote further development in the SA automotive industry?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

16 To what extent has the MIDP created an internationally competitive automotive exporting industry in South Africa?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

17 To what extent are you confident in the MIDP going forward from 2012?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

18 To what extent do you believe the SA automotive industry could have survived without the latest review of the MIDP for 2012 to 2020?

not at all ….1…...2...…3…...4…...5..…6...…7…...8..….9..…10..…. considerably

State your current position ……

Age ……

Gender …….

Years involved in the industry .....

Thank you, Jason Allardice

Jason.Allardice@smiths.co.za

APPENDIX 2

SUMMARY OF FINDINGS

TOTAL SAMPLE 40

1 *To what extent has the MIDP contributed towards the integration of the SA automotive industry into the global market since 1995?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
					4	3	7	11	5	10	40
	0%	0%	0%	0%	10%	8%	18%	28%	13%	25%	
		0%			18%			83%			

2 *To what extent has the MIDP brought about challengers for the SA automotive industry due to global intervention?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
				1		4	14	9	10	2	40
	0%	0%	0%	3%	0%	10%	35%	23%	25%	5%	
		3%			10%			88%			

3 *To what extent has the SA automotive industry improved due to this global integration?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
					3	7	13	8	5	4	40
	0%	0%	0%	0%	8%	18%	33%	20%	13%	10%	
		0%			25%			75%			

4 *To what extent has global integration forced the SA automotive industry to continually seek better ways to cope with challengers posed by Globalisation?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
							16	15	5	4	40
	0%	0%	0%	0%	0%	0%	40%	38%	13%	10%	
		0%			0%			100%			

5 *To what extent has the MIDP contributed towards improving technology transformation in the SA automotive industry?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
		1	3	1	7	4	6	11	4	3	40
	0%	3%	8%	3%	18%	10%	15%	28%	10%	8%	
		13%			28%			60%			

6 *To what extent has the MIDP impacted business in the SA automotive industry?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
							11	13	10	6	40
	0%	0%	0%	0%	0%	0%	28%	33%	25%	15%	
		0%			0%			100%			

7 *To what extent is the MIDP responsible for the future of the SA automotive industry?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
				3	2	2	4	12	7	10	40
	0%	0%	0%	8%	5%	5%	10%	30%	18%	25%	
		8%			10%			83%			

8 *To what extent do you feel the MIDP impacted on the price of SA manufactured automotive products from the year 1995 to 2005?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
			1	4	6	7	5	11	6			40
	0%	0%	3%	10%	15%	18%	13%	28%	15%	0%		
		13%			33%			55%				

9 *To what extent do you feel the MIDP has impacted on the price of SA manufactured automotive products since 2006?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
			2	9		5	3	13	8			40
	0%	0%	5%	23%	0%	13%	8%	33%	20%	0%		
		28%			13%			60%				

10 *To what extent has the MIDP contributed towards the SA automotive industry's competitiveness in the global automotive market?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
				8	6	3	7	2	12	2		40
	0%	0%	0%	20%	15%	8%	18%	5%	30%	5%		
		20%			23%			58%				

11 *To what extent has the MIDP brought about positive outcomes to the SA automotive industry?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
				8	1	3	8	8	8	4		40
	0%	0%	0%	20%	3%	8%	20%	20%	20%	10%		
		20%			10%			70%				

12 *To what extent do you believe the standards in the SA automotive industry have improved as a result of the MIDP?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
					2	8	6	16	6	2		40
	0%	0%	0%	0%	5%	20%	15%	40%	15%	5%		
		0%			25%			75%				

13 *To what extent do you believe that low import tariffs have placed the SA automotive industry under competitive pressure due to growing imports?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably	
				2	1	1	9	10	8	9		40
	0%	0%	0%	5%	3%	3%	23%	25%	20%	23%		
		5%			5%			90%				

14 *To what extent do you believe restrictions should be imposed on vehicle and component imports?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
			2	2	5	7	11	6	5	2	40
	0%	0%	5%	5%	13%	18%	28%	15%	13%	5%	
		10%			30%			60%			

15 *To what extent do you believe export incentives can promote further development in the SA automotive industry?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
				9		3	4	9	5	10	40
	0%	0%	0%	23%	0%	8%	10%	23%	13%	25%	
		23%			8%			70%			

16 *To what extent has the MIDP created an internationally competitive automotive exporting industry in South Africa?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
			6	3	2	3	2	12	7	5	40
	0%	0%	15%	8%	5%	8%	5%	30%	18%	13%	
		23%			13%			65%			

17 *To what extent are you confident in the MIDP going forward from 2012?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
		1	1		2	11	8	6	4	7	40
	0%	3%	3%	0%	5%	28%	20%	15%	10%	18%	
		5%			33%			63%			

18 *To what extent do you believe the SA automotive industry could have survived without the latest review of the MIDP for 2012 to 2020?*

Not at all..	1	2	3	4	5	6	7	8	9	10	...considerably
	2	2	4	8	14	5	4			1	40
	5%	5%	10%	20%	35%	13%	10%	0%	0%	3%	
		40%			48%			13%			

Are you answering as a:

person working for a major South African Vehicle Manufacturer?	17	43%
OR		
person working for a first supplier to a major South African Vehicle Manu facturer?	23	58%

Are you:

Male	35	88%
OR		
Female	5	13%

What is your Age

20-30	2	5%
31-40	15	38%
41-50	8	20%
51-60	12	30%
61-70	3	8%

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17 DECEMBER 2008

MR. JM ALLARDICE (204519871)
GRADUATE SCHOOL OF BUSINESS

Dear Mr. Allardice

ETHICAL CLEARANCE APPROVAL NUMBER: HSS/0830/08M

I wish to confirm that ethical clearance has been approved for the following project:

"The impact of the MIDP on the South African Automotive Industry"

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Yours faithfully

.....
MS. PHUMELELE XIMBA

cc. Supervisor (Mr. RM Challenor)
cc. Mrs. C Haddon