REGIONAL INTEGRATION AND THE AUTOMOTIVE INDUSTRY IN SOUTHERN AFRICA

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Abbreviations

BLNS	Botswana, Lesotho, Namibia, and Swaziland
CBU	Completely built up unit
CKD	Completely knocked down
CSO	Central Statistical Office
ESAP	Economic Structural Adjustment Programme
MIDP	Motor Industry Development Programme (South Africa)
MTAZ	Motor Trade Association of Zimbabwe
NAAMSA	National Association of Automobile Manufacturers of South Africa
OE	Original Equipment
SKD	Semi knocked down

1. INTRODUCTION

As the SADC member states move to create a free trade arrangement in southern Africa, much closer economic ties are developing among the countries of the sub-continent. Indeed the impetus for regional integration reflects both political imperatives and the economic necessity to consolidate Southern Africa's small national economies into a market of reasonable size. Even as a consolidated grouping the fourteen Southern African Development Community (SADC) member states constitute a minor economic bloc with a combined regional product of approximately $180 billion. As far as the automotive industry is concerned, SADC is even less significant accounting for less than one percent of global output. The region is, moreover, dominated by South Africa which accounts for 71% of regional GNP and over 90% of automotive production[1]. However, with a large, fast growing population, improved prospects for sustainable growth and moves towards regional integration gathering momentum, Africa is of growing interest to global automotive producers. This is especially the case given that it is the only continent without a significant industry[2]

Attempts to forge regional integration in Africa have a long but undistinguished history. Weak internal transport links partly resulting from the continuing colonial pattern of transport infrastructure being developed to facilitate the export of commodities to the advanced countries, coupled with political fragmentation and a lack of industrial dynamism have all meant that internal trade between African countries has been quite limited. Notwithstanding, ongoing political rivalries and divisions, there is strong political support for regional integration. Within southern Africa, trade and investment flows have increased rapidly over the past decade. South Africa has become a very significant supplier of industrial products to the region and South African firms are also investing heavily in neighbouring countries. Large-scale infrastructure projects in transport, water and electricity supply are developing a regional rather than national orientation. However, despite these growing links, significant growth of the industrial base of the non- South African members of SADC to supply the South African market has not yet occurred. Indeed, the large trade surplus that South Africa runs with its southern African neighbours has become increasingly contentious.

Regional integration could potentially lead to greater specialisation and more efficient industrial development in southern Africa. Certainly a lack of specialisation and the resulting lack of economies of scale is the major structural problem facing South Africa's automotive industry. This feature is even more apparent in the tiny automotive operations in other parts of the region. So regional integration is arguably essential if southern Africa and indeed Africa as a whole are to have any prospect of developing a sustainable

[1] South Africa produces nearly 80% of the passenger cars produced in Africa and approximately 70% of the commercial vehicles. Outside of southern Africa the only other significant producers are Egypt and Morocco.

[2] Australia has a relatively small industry but prospects for growth are minimal given its small population and high rate of vehicle ownership.

automotive industry. While the arguments for regional integration are clear, there are a number of factors, which are likely to constrain the process:

- the trade in vehicles and components is mainly uni-directional, from South Africa to other SADC members. Non South African SADC members fear the prospect of even greater automotive trade deficits with South Africa and damage to their infant automotive sectors.

- the automotive industry is small in the region and the non-South African countries add little to the overall market for new vehicles. For South African vehicle manufacturers, who are currently supported by the Motor Industry Development Programme (MIDP)[3] in African markets there is little perceived advantage in the short term. They are also concerned about the administrative complexities and potential for illegal importation of new and used vehicles and components.

- A number of SADC countries do not have automotive industries and would see little benefit in joining a free trade area which may increase vehicle costs by diverting production to higher cost suppliers such as South Africa leading also to losses in customs revenue.

The SADC involves economies of very varying size. South Africa's relative weight is similar to that of the United States in NAFTA being both larger in terms of population and more developed than other member states. In NAFTA, the automotive industry has been a powerful force driving regional integration. The less developed regions within NAFTA (i.e. Mexico) have, for example, attracted considerable inward investment on the basis of their significant labour cost advantages combined with the fact that modern plants have been able to attain comparable levels of productivity to the US (Shaiken, 1990). This has all been in the context of an enormous market. SADC manifestly lacks these attributes. The overall market size is small and, with some exceptions, there is little imperative for firms to shift investments into the surrounding countries. As is indicated in Section 4 below, in the automotive industry regional intra-industry trade is limited and complementarities are more evident in other sectors such as clothing and textiles. Regional specialisation is in the short term, therefore, likely to be inter- rather than intra sectoral. However, with an improved investment climate and more rapid growth in the regional market, intra - industry trade and investment patterns are likely to emerge more strongly.

[3] The MIDP incorporates an import-export complementation system, which allows exporting firms to rebate duties on the import of vehicles and components.

2. THE STRUCTURE OF THE INDUSTRY IN THE REGION.

Southern Africa constitutes a very small market and sales have stagnated since the early 1980s. The South African vehicle market is by far the largest and accounted for 90% of the total SADC market of 390 000 vehicles in 1998 (Table 2.1). Low growth rates in South Africa since the boom of the early 1980s are, therefore, the overriding factor accounting for the lack of expansion in the vehicle market in the region as a whole. More recently, South Africa has been buffeted by the fallout of the Asian economic crisis of 1997-98 but the market is expected to grow by 15% in 2000.

Table 2.1: Automotive production and sales in SADC (000 units)

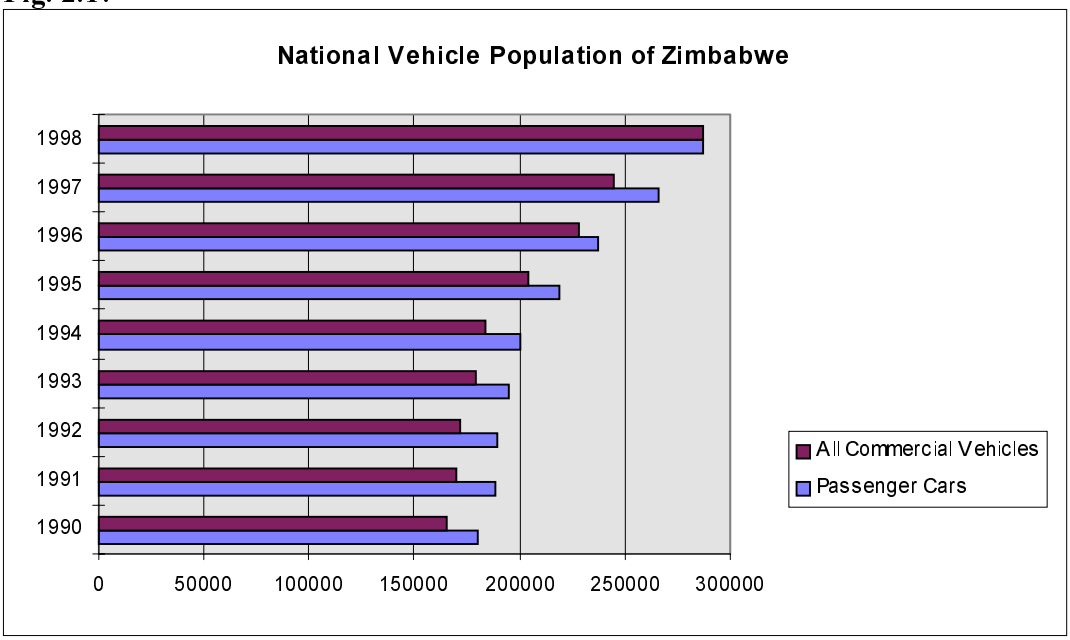
	SOUTH AFRICA		ZIMBABWE		OTHER SADC	
	Production	Sales	Production	Sales	Production	Sales
1990	343	335	10	9.5	1.4	14
1991	315	308	11.5	8.2	1.4	12
1992	293	284	7	8.2	0.9	13
1993	308	298	7	8.4	0.5	15
1994	313	308	8.5	10	0.4	19
1995	389	387	10	10.8	0.2	22
1996	394	421	15	13	0.2	24
1997	364	399	18	16.5	0.1	27
1998	313	351	14	12.1	10	26

Source: NAAMSA, DTI, MTAZ (1999)
Note: Production in the "Other SADC" category was mainly in Zambia and since 1998 in Botswana.

The second largest market in the region, Zimbabwe, has seen sporadic growth with new vehicle sales reaching 16 500 units in 1997. Deteriorating economic conditions have resulted in a steep decline in vehicle sales since then. Angola's enormous potential remains unrealised due to the protracted civil war and countries such as Tanzania and Zambia are only now showing some signs of emerging from a long period economic stagnation. Economies such as Mozambique, Botswana and Mauritius are growing rapidly but their markets are tiny.

In 1994 the Southern African region was estimated to have about seven million vehicles with South Africa accounting for 81% of the total followed by Zimbabwe with 6%. In spite of the low rate of market expansion, the vehicle parc in the region is not insignificant and has continued to grow, reflecting both an increase in the average age of vehicles as well as increased imports of used vehicles into some countries. The vehicle population of SACU member countries has increased by 38% over the period 1994 to 1997. The most recent figures from Zimbabwe's Central Vehicle Registry put Zimbabwe's vehicle population at just under 600 000 vehicles with rapid growth especially of the population of commercial vehicles belying weak domestic economic conditions (Figure 2.1).

Fig. 2.1:



Source : Central Vehicle Registry, 1999.

The average age of the South African vehicle park in 1998 was nine years, a figure, which is certainly exceeded in the other SADC countries with the possible exceptions of Mauritius and Botswana. Estimates for Zimbabwe[4] suggest that 75% of all passenger cars, 60% of commercial vehicles, 65% of tractors, and 55% of the buses on the roads were well over ten years old. The point here is that the ageing vehicle fleet of southern Africa creates significant aftermarket opportunities which may point to a somewhat different trajectory of automotive development than has been the case in other more industrialised parts of the developing world.

Table 2.2: Vehicles in Use in Southern Africa (1994)

Region/ Country	Passenger Cars ('000)	Persons Per Car	Commercials ('000)
SACU			
South Africa	3 900	12	1 700
Botswana	60	23	24
Lesotho	5	368	13
Namibia	59	27	63
Swaziland	23	36	17
Rest of SADC			
Angola	125	86	45
Malawi	17	520	18

[4] Central Statistical Office (1997).

Mauritius	41	27	44
Mozambique	85	176	28
Tanzania	49	600	39
Zambia	101	86	69
Zimbabwe	302	35	87

Source : Black (1998).

Production

Production in the region mirrors market developments. As Table 2.3 indicates, South African vehicle manufacturers dominate production in the region and in Africa as a whole. There are eight producers of light vehicles in South Africa. In 1998, a recession year, they assembled 301 000 units of which 8.4% were exported. Production growth has been held back by very weak internal economic conditions since the early 1980s. With falling protection, import levels have been rising and accounted for 17.6% of the light vehicle market in 1998.

Heavy protection has resulted in proliferation to the extent that most manufacturers build a variety of models and in some cases more than one make in a single assembly plant. All assemblers are now wholly or partly owned by the parent company in Japan, the US or Europe. Toyota is the major producer of both cars and light commercial vehicles. There are also 11 producers of medium and heavy commercial vehicles which produced approximately 12 000 vehicles in 1998.

Table 2.3: Light vehicle assemblers operating in Southern Africa

COUNTRY	ASSEMBLER	OWNERSHIP	MAKES	CAPACITY
South Africa	Automakers	Nissan Fiat Sankorp	Nissan Fiat	75 000
	BMW (SA)	BMW AG	BMW	40 000
	Delta	GM Domestic	Opel Isuzu	75 000
	Ford	Ford Motor (90%)	Ford Mazda	70 000
	Land rover	Ford	Landrover	10 000
	Daimler Chrysler	Daimler Chrysler	Mercedes Honda # Mitsubishi	40 000
	Toyota	TMC Wesco	Toyota	120 000
	VW (SA)	VW AG	VW Audi	100 000
Zimbabwe	Willowvale	Foreign/Govt.	Mazda	20 000
	Quest Motors	Domestic/ foreign partnership	Peugeot, Nissan, Land Rover	20 000

Botswana	Hyundai Motor Distributors *	Wheels of Africa (South Africa)	Hyundai	40 000

Notes: # Honda production will be discontinued in the Daimler Chrysler plant from the end of 2000
* The Botswana plant has recently temporarily ceased production as a result of financial difficulties in the holding company, Wheels of Africa.
Plant capacity figures are estimates and could be increased through more shifts.

Outside of South Africa, assembly activities in the region are very small scale, consisting of licensed operations assembling low volumes of imported CKD kits. OE component production is also very limited. The Zimbabwean industry has the capacity to produce 40 000 vehicles per annum but only 18 000 light vehicles were assembled in the record year, 1997, and output has since declined.

Hyundai Motor Distributors has begun the assembly of the Hyundai vehicle in a newly built plant in Botswana for the SADC market. The plant with an initial investment of approximately R300 million and a capacity of 40 000 vehicles per year is the largest automotive investment in SADC outside of South Africa. Swaziland is also now involved in the small scale assembly of medium to heavy commercial vehicles[5] and a similar small scale operation is being established in Mozambique. The small Zambian industry has ceased to exist in the wake of structural adjustment and the poor economic conditions prevailing in that country (Rhys, 1996).

3. THE DEVELOPMENT OF THE AUTOMOTIVE INDUSTRY IN SOUTHERN AFRICA

The development of the automotive industry in the region has been shaped by government policy especially tariff protection. The few countries which have tried to encourage domestic manufacture have pursued a range of policies. South Africa has followed a programme of import substitution similar to that adopted in other large developing countries especially in Latin America. High tariffs were placed on CBUs later followed by increasing local content requirements. Production was initially aimed solely at the domestic market until the promotion of exports began in 1989. Since 1995 the policy has been one of phased liberalisation under the Motor Industry Development Programme.

Other African producers went through a much shallower process of local manufacture and tended to liberalise their industries before significant exports had been achieved (Table 3.1). What has remained in most cases are small scale and inefficient assembly operations with negligible local content. In some cases such as Zambia, liberalisation led to the collapse of the very small scale CKD assembly operations that existed. Outside of South Africa and a few countries in north Africa, the main component production is for the aftermarket.

[5] Business Day, 30 May 1997.

Table 3.1: Nature of Automotive Operations in Selected Developing Countries

	ASSEMBLY	MANUFACTURE	EXPORT	LIBERALISATION
Brazil	1919 - 1956	1956 - 1972	1972 - 1990	1990 -
Mexico	1925 - 1962	1962 - 1969	1969 - 1989	1989 -
South Korea	1967 - 1973	1973 - 1977	1977 - 1989	1989 -
South Africa	1925 - 1961	1961 - 1989	1989 - 1995	1995 -
Zambia	1972 - 1991	-	-	1991 -
Zimbabwe	1956 - 1965	1965 - 1994	-	1994 -
Egypt	1950 - 1960	1960 - 1995	-	1985 -
Kenya	1974 - 1994	-	-	1994 -
Nigeria	1960 - 1970	1970 -	-	-

Source : Rhys, 1996.

South Africa

Ford and General Motors were the first to establish a production presence in South Africa in the 1920s.[6] The domestic market expanded rapidly and production of cars reached 87 000 units in 1960, a level higher than any other developing country at the time. Domestic content at this stage was only 20%, prompting the introduction of the first of a series of local content programmes in 1961. Local content rose rapidly rising to 52% on a mass basis by 1971. Later phases of the local content programme increased local content requirements to 66% for all light vehicles[7].

Phase VI of the local content programme, introduced in 1989, marked a substantial change of direction. It was the first attempt to address the problems of an inwardly oriented, overly fragmented industry with low volume output and associated high unit costs. Most importantly, local content was to be measured not just by the value of domestically produced components fitted to locally assembled vehicles but on a net foreign exchange usage basis. In other words, exports by an assembler counted as local content and enabled it to reduce actual local content (to a minimum of 50%) in domestically produced vehicles. Exports, especially of components, grew extremely rapidly giving assemblers greater flexibility in their sourcing arrangements.

In 1995, Phase VI was replaced by the Motor Industry Development Programme which runs until 2002. It continued the direction taken by Phase VI and entrenched the principle of export complementation. However, it went a step further by abolishing local content

[6] For further detail on the history of automotive development policy see Black (1994) and Duncan (1997)
[7] This requirement was introduced under Phase III of the local content programme in 1971 and extended to light commercials in Phase V which was introduced in 1980.

requirements and introducing a tariff phase down at a steeper rate than required in terms of South Africa's WTO obligations.

The automotive policy currently being applied in SACU is the Motor Industry Development Programme (MIDP) and this is the policy option, which is being offered to the non-SACU members of SADC. It is, therefore, necessary to consider it in some detail.

The MIDP, which was introduced in 1995, consists of two parts:

- The light vehicle programme
- The medium and heavy vehicle programme.

The light vehicle programme covers passenger vehicles, mini buses and light commercial vehicles. To participate in the Programme assemblers have to be registered as vehicle assemblers and have to undertake completely knocked down (CKD) assembly of vehicles. The key elements are the following:

a) The excise duty based local content system, which applied under Phase VI, has been changed to a tariff driven programme.
b) There is no minimum local content requirement.
c) Tariffs on light vehicles are being phased down to 40 % for light vehicles and 30% for components by 2002 (Table 3.2).

Table 3.2: Import Duty Phase down for light vehicles and original equipment components under the MIDP

	Vehicles	Components
1995	65.0	49.0
1996	61.0	46.0
1997	57.5	43.0
1998	54.0	40.0
1999	50.5	37.5
2000	47.0	35.0
2001	43.5	32.5
2002	40.0	30.0

Note: Tariffs for each year are applicable from 1 January

d) Manufacturers of light vehicles are entitled to a Duty Free Allowance (27% of the wholesale value of the vehicle) for the importation of original equipment components.
e) Import duty on components and vehicles may be offset by import rebate credit certificates derived from the export of vehicles and components. The value of the certificates is equal to the net foreign currency earnings of the exports, that is the FOB export value less foreign currency usage in the manufacture of exported products. The prevailing component duty (Table 3.2) applies to the balance.
f) The programme also contains a provision for additional Duty Free Allowance for small vehicles.

Mid Term Review and Revised Motor Industry Development Programme

The Department of Trade and Industry has recently announced the outcome of the Mid Term Review of the MIDP. While the MIDP is perceived by the South African government to have had a generally positive effect, the Mid Term Review is designed to address certain problem areas. The changes listed below were effective from July 2000.

a) The MIDP has been extended to 2007 in order to provide a long term planning environment.

b) Tariffs on imported light vehicles are being reduced from 2003 by 2 percentage points per annum to 30% in 2007. Tariffs on OE components are being reduced from 2003 by 1 percentage point per annum to 25% in 2007.

c) The small vehicle incentive is being phased out as it is seen as having served its purpose.

d) The duty free allowance on imported components is being maintained at 27%.

e) The import rebate credit facility for vehicle exports will be reduced from 1:1 in 2002 to 1:0.6 in 2007.

f) The import rebate credit facility for component exports is being reduced from the current 1:1 ratio to 1:0.6 by 2007. The ratio of exports of components exported versus CBU light motor vehicle imports is being adjusted from 1:0.75 to 1:0.6 by 2003 to encourage component manufacture.

g) In the case of catalytic converters the level of support to the platinum group metal content (PGM) content in components is being phased down to 40% by 2003.

h) A Productive Asset Allowance (PAA) has been introduced to encourage investment (see Appendix 2 for details)

The medium and heavy vehicle programme

At the introduction of the MIDP in 1995 the South African government adopted the view that medium and heavy vehicles were key items of capital equipment and should be available at competitive prices. Protection has therefore been reduced very sharply. While this sector was not subjected to a formal mid term review, it was decided to investigate the rebate provision for drive train components (automatic diesel engines, gearboxes and drive axles) and the duty for assembled vehicles. Amendments, which came into effect in July 2000 include the following (see Appendix 3 for further detail):

a) The duty rate on medium and heavy motor vehicles is to remain at 20 %.

b) The rebate on drive train components (diesel engines, gearboxes and drive axles) is to be amended to a full rebate of duty.

c) The duty protection afforded to tyres will remain at 15%.

d) The rate of duty on original equipment components is to be reduced from 30% to 25% from 2002 to 2007 by 1 percentage point per annum as in the case of light vehicles. OE components can, however, be imported at full rebate of duty.

Current developments

While nominal duties on imported light vehicles will remain fairly high, the ability to rebate import duties by exporting enables importers to bring in vehicles at lower effective rates of duty. However, export complementation also enables assemblers to use import credits to source components at close to international prices. This means that there is still a strong incentive to assemble locally.

These policy developments together with the ending of the political and economic isolation of South Africa have rapidly led to the industry becoming more internationally integrated. This is apparent in the growing levels of foreign ownership and investment and the rapid expansion of trade especially exports. Until the early 1990s, with the exception of the German companies (Mercedes, BMW and Volkswagen) all local assembly operations were domestically owned and operated under licence. This has changed substantially and much closer links have developed between the local firm and the overseas parent. Direct equity stakes by Nissan and Toyota could be the forerunner of direct Japanese investments in the component sector. Ford and General Motors have taken substantial equity stakes with Ford recently increasing its stake to 90% in Samcor (now renamed Ford), which produces Ford and Mazda vehicles. Political acceptability and an automotive policy, which encourages exports and, therefore, specialisation have given strong encouragement to parent companies to increasingly incorporate their South African interests into their global networks. There has also been significant foreign investment, particularly by German firms, in the component sector in areas such as tyres, catalytic converters, engines, seating and axle assemblies.

Investment links within the region have been slower to develop. Trade barriers within the region and the small scale of vehicle operations have meant that many of these operations still operate under licence. Certain South African automotive firms have subsidiaries in the region and South Africa tends to act as regional headquarters to foreign firms with interests in southern Africa. Examples include South Africa's US$ 33 million investment in the Afinta Motor Corporation of Swaziland for the assembly of medium-to-heavy commercial vehicles, and a R7million investment by Nissan (SA) in the Quest assembly plant in Zimbabwe for the manufacture of a range of Nissan vehicles[8]. There is very little

[8] BusinessMap, 2000 (unpublished data).

indigenous capital in the automotive industry outside of South Africa and investments from the region back into South Africa are negligible.

Zimbabwe

Zimbabwe also followed a programme of import substitution but achieved much lower levels of local content and production remains directed primarily at the internal market. The economy of Zimbabwe has been characterised by stringent government controls since 1965. These controls were originally introduced to conserve foreign exchange and maximise self-sufficiency in a situation of punitive economic sanctions applied against the Smith government. The small-scale assembly operations that were established were unsophisticated with extremely low domestic content.

Since independence in 1980, licensing and foreign exchange restrictions have hindered development. These problems were compounded by agreements imposed by technology licensors which required virtually all parts to be imported and restricted exports. In the mid 1980's, government sought to consolidate the industry into so-called Vertically Integrated Companies (VIC's). The idea was that the three major motor vehicle assembly companies i.e. W. Dahmer and Company, Leyland Zimbabwe, and Willowvale Motor Industries, would be the only importers and distributors of motor vehicles and motor vehicle components (Dhlamini, 1996). However, due to severe foreign currency shortages in the late 1980's the plan never materialised.

In the early 1990's, amid mounting social and economic pressure the government launched the Economic Structural Adjustment Programme (ESAP). These economic reforms consisted of the relaxation of government controls in various sectors of the Zimbabwean economy and the liberalisation of the trade environment. Although tariffs on CBU's remained high, the elimination of the discretionary allocation of foreign currency and the introduction of foreign currency denominated accounts (FCDAs) effectively freed up the importation of vehicles and components. Imports of both CBUs and components increased rapidly. While significant local content had never been achieved, it declined further to negligible levels as a result of liberalisation.[9]

The tariff policy of the government has had two main objectives. Firstly it is designed to extend to local assemblers an opportunity to invest in infrastructure and skills necessary to compete on the open market. Secondly, the tariff structure is designed to balance any unfair advantage that exporters of CBU products to Zimbabwe may enjoy. Local vehicle assemblers are charged a total of 35% for completely knocked down (CKD) kits. Just 10% is the import duty, and the remaining 25% is the sales tax. CBU's attract a tariff and other surcharges of between 125% and 140%.

[9] Local content levels range between 6 – 15% consisting mainly of peripheral components (Survey data).

Even after the introduction of the structural adjustment programme, Zimbabwe has maintained relatively high levels of protection. Foreign exchange problems, lobbying by vehicle manufacturers[10] and a trade dispute with South Africa led to tariffs, surcharges and other taxes being adjusted sharply upwards on a range of products including vehicles in November 1998[11]. At the time of writing, the Zimbabwean tariff schedules were under review by the Tariff Commission.

Botswana

Hyundai Motor Distributors opened a new R300 million plant in 1998 to produce Hyundai cars and light commercials under licence from Hyundai Motor Corporation. This constitutes the largest automotive investment in the region outside of South Africa. The origins of this investment are unusual in that it resulted in part from a trade policy wrangle within the Southern African Customs Union (SACU). As a member of SACU, Botswana is subject to the provisions of the Motor Industry Development Programme. When this was introduced in 1995, Hyundai Motor Distributors had been operating a semi knocked down operation supplying vehicles to the South African market. The plant was given a temporary special concession to continue with this operation subject to moving to full CKD assembly within a specific timeframe. Production began in 1998 mainly for the South African market but ceased with the collapse of Hyundai Motor Distributors in late 1999. It is likely that production will resume under new ownership.

Diamond rich Botswana has been one of the fastest growing countries in the world over the past two decades and boasts political stability, a well managed economy and attractive tax incentives. In addition its membership of SACU and location adjacent to the southern African economic heartland of Gauteng makes it a potentially favourable manufacturing location. The establishment of the Hyundai factory has resulted in few component investments in the country but future developments will be strongly influenced by the manner in which the plant's current problems are resolved.

Other countries

The other member states of SADC have for the most part small-scale component sectors catering primarily for the aftermarket. Mozambique for example has plants producing exhausts, batteries, tyres, radiators, brake shoes and springs. Many of these plants struggle to compete against South African firms in the tiny home market or in the region and are hampered by duties on imports into South Africa. In some countries there are also very small-scale truck and bus assembly and body building operations but in cases such as Zambia, light vehicle assembly did not survive structural adjustment.

[10] See for instance "Avoid dumping in our domestic market and protect jobs" *The Herald*, 21 March 1997.
[11] Tariffs on passenger cars were increased to between 100% and 120%; to 90% for commercial vehicles and to between 30% and 80% for components.

4. THE EXPANSION OF REGIONAL TRADE AND INVESTMENT

As indicated above, intra-regional investment ties in southern Africa, while growing, are still at a relatively low level. The major driver of regional integration is trade, especially as it is likely to foreshadow closer investment links when trade barriers are reduced.

South Africa's Trade with the Region

Automotive exports by SADC countries and trade within the region have expanded rapidly over the past decade. South Africa[12] accounts for over 90%[13] of total exports by SADC countries and also dominates regional trade. Automotive exports from South Africa have expanded dramatically from just R315 million in 1988 to approximately R15 billion in 1999 of which just over R5 billion is accounted for by vehicles. In unit terms light vehicle exports have increased from 11 400 units in 1992 to approximately 58 000 units in 1999.

As Table 4.1 indicates, there has been a major expansion in a wide range of components, especially of products such as leather seating material, catalytic converters, wheels and tyres. The industry supplying leather seat covers supplies the bulk of BMW's global requirements and is an important supplier to a number of other foreign vehicle manufacturers. South Africa now supplies over 10% of global demand for catalytic converters. The prime objective of the import export complementation scheme is to assist component suppliers to generate high volumes, which make them more efficient and able to compete in the domestic market against imports. While this objective has been achieved in part, it is clear that the bulk of export expansion has not been by 'traditional' component suppliers but by a rapidly emerging new group of mainly foreign owned firms frequently with links to vehicle manufacturers. The major links of these firms are with the global networks of the parent companies and not within the southern African region.

The growth in exports is, therefore, the result of a number of factors. Firstly, the import-export complementation arrangements of Phase VI and the MIDP have powerfully assisted export expansion, in particular, by facilitating the integration of South Africa as a supplier of selected components to the global networks of the major carmakers. In this sense integration is happening more rapidly with the major producing countries, especially Germany, than within the southern African region itself. A second driver of export expansion has been falling protection and limited domestic market growth possibilities, which have forced firms into the export market. A significant share of this export expansion has been destined for SADC, a process which has accelerated since the advent of democracy in South Africa and the dropping of sanctions (Table 4.2).

Table 4.1: SACU exports of components (Rm)

[12] Data on exports from South Africa in this section include other members of SACU.
[13] This figure is closer to 97% if exports of Hyundai vehicles from Botswana to South Africa are excluded. The plant is currently shut but likely to reopen soon.

	1995	1996	1997	1998	1999	% OF 1999 TOTAL
Catalytic converters	388	485	835	1520	2569	26.6
Stitched leather covers	1019	1259	1408	1854	1888	19.5
Tyres	219	296	342	498	639	6.6
Silencers/exhaust pipes	76	170	151	493	598	6.2
Road wheels/parts	175	227	325	446	518	5.4
Engine parts	112	137	285	390	383	4.0
Wiring harnesses	41	92	136	207	304	3.1
Automotive tooling	259	279	309	256	264	2.7
Glass	49	71	105	112	147	1.5
Radiators	77	107	93	108	111	1.1
Ignition/starting equipment	4	16	30	47	94	1.0
Filters	13	42	55	72	85	0.9
Transmission shafts, cranks	29	38	7	62	85	0.9
Brake parts	23	29	39	76	79	0.8
Shock absorbers	38	53	56	63	77	0.8
Batteries	53	60	88	79	68	0.7
Car radios	7	4	29	47	73	0.7
Clutches/shaft couplings	16	21	33	51	54	0.6
Other components	694	560	656	1142	1504	15.5
TOTAL	**3318**	**4051**	**5115**	**7895**	**100**	**100**

Source: Department of Trade and Industry (1999).

Table 4.2: SACU automotive exports to SADC countries 1995 -1998 (Rm)

	1995	1996	1997	1998
Components	337	550	649	713
Light vehicles	923	743	1468	1951
Medium and heavy commercials	516	315	455	393
Total	**1776**	**1608**	**2572**	**3057**

Source: Department of Trade and Industry (unpublished data)

While SACU exports into SADC have increased rapidly, this has been at a slower rate than total automotive exports. For example, light vehicle exports to SADC accounted for 12% of the total in 1999, a sharp decline from the 64% share in 1996. For medium and heavy commercial vehicle exports, which have not grown significantly in volume terms, Africa remains the dominant market although the SADC share has declined from 89% in 1996 to 60% in 1999 (Table 4.4).

The declining share of the SADC market is a function of a number of factors. Firstly, the collapse of the Zimbabwean market as well as the raising of tariff barriers in response to

economic problems has slowed sales into South Africa's major regional market. In addition light vehicle exports from South Africa have been increasing at a very rapid pace to markets such as Australia and Europe reflecting the increasingly important role played by South African operations of firms such as BMW and VW in the global strategy of the parent company.

Table 4.3: Destination of SACU Light Vehicle Exports by Value

COUNTRY/REGION	1996	1997	1998	1999
	%	%	%	%
Germany	-	5	25	57
UK	3	2	15	13
Australia	11	19	15	10
Mozambique	9	9	7	4
Taiwan	-	5	4	3
Zimbabwe	36	18	8	2
Zambia	7	6	6	2
Malawi	9	7	4	2
Kenya	9	5	3	1
Mauritius	1	1	1	1
Ghana	-	-	1	1
Other	15	13	4	3
EU	**4**	**7**	**41**	**70**
SADC	**64**	**46**	**27**	**12**

Source: Department of Trade and Industry (2000)

Table 4.4: Destination of SACU medium and heavy commercial vehicle exports (by value):

COUNTRY/REGION	1996	1997	1998	1999
	%	%	%	%
Mozambique	14	19	23	28
USA	-	-	4	27
Malawi	19	19	12	16
Zambia	12	12	7	6
Zimbabwe	36	25	17	4
UK	-	3	-	4
Belgium	-	-	1	3
Tanzania	6	3	4	2
Angola	-	4	1	2
Dem. Rep. of Congo	-	1	1	1
Kenya	6	3	7	1
Other	9	11	24	5

SADC	**89**	**82**	**66**	**60**
North America	**-**	**1**	**8**	**30**
EU	**-**	**3**	**2**	**8**

Source: Department of Trade and Industry (2000)

SACU component exports to SADC are also significant with Zimbabwe and Mozambique ranking as the sixth and ninth largest markets respectively (Table 4.5). With the exception of Nissan CKD packs supplied to Zimbabwe, exports comprise mainly aftermarket products such as tyres, shock absorbers, filters and batteries (Table 4.6). These products are supplied either to independent distributors in the SADC countries or via distribution channels established by major South African aftermarket suppliers.

Table 4.5: Destination of SACU Component Exports

COUNTRY/REGION	1995	1996	1997	1998	1999
	%	%	%	%	%
Germany	45.0	47.1	48.9	49.1	46.1
United Kingdom	6.4	8.0	9.5	9.1	10.3
USA	4.2	5.0	6.4	6.1	10.0
Belgium	8.0	6.2	4.6	6.1	5.6
Spain	3.6	2.7	1.7	4.7	4.3
Zimbabwe	4.4	5.9	6.5	4.2	3.3
Netherlands	1.9	3.0	2.4	1.6	1.9
France	0.7	0.8	2.1	1.3	1.6
Mozambique	1.4	1.2	1.4	1.1	1.3
Zambia	1.7	1.9	2.0	1.4	1.0
Other	24.2	19.4	17.3	17.1	10.3
EU	67.7	69.7	70.7	73.8	73.6
AFRICA (Incl. SADC)	13.2	14.6	13.9	10.6	9.2
NORTH AMERICA	4.7	5.3	6.0	7.7	10.3
SOUTH AMERICA	4.3	3.7	2.2	0.8	0.9

Source: Department of Trade and Industry (1999)

Table 4.6: Share of SADC countries in total SACU exports of selected components

	Share Of Total SACU Exports (%)			
	Zimbabwe	**Zambia**	**Mozambique**	**Angola**
Tyres	10	7	4	3
Engine parts	6	4	3	1
Engines	2	2	2	-
Automotive tooling	11	-	2	-
Batteries	3	8	6	1

Brake parts	5	-	-	-
Filters	24	3	3	-
Shock absorbers	10	5	1	-
Transmission shafts	3	3	-	-
Ignition equipment	13	7	1	-

Source: Department of Trade and Industry, unpublished data.
Note: Only components where a significant share is exported to SADC are listed above. South Africa's two main export products (automotive leather and catalytic converters) are not exported to SADC.

South Africa is a significant importer of vehicles and components but very little is sourced from the region. As far as vehicles are concerned until the early 1990s, prohibitive tariff levels resulted in low levels of vehicle importation. The opening up of the economy and the phasing down of tariffs have led to an expansion of light vehicle imports which have increased from 2% of the market in 1990 to 17.6% in 1998. Germany, Japan and Korea are the main source countries for vehicle imports. One important exception is the Hyundai plant in Botswana, which mainly served the South African market until its recent (temporary) closure.

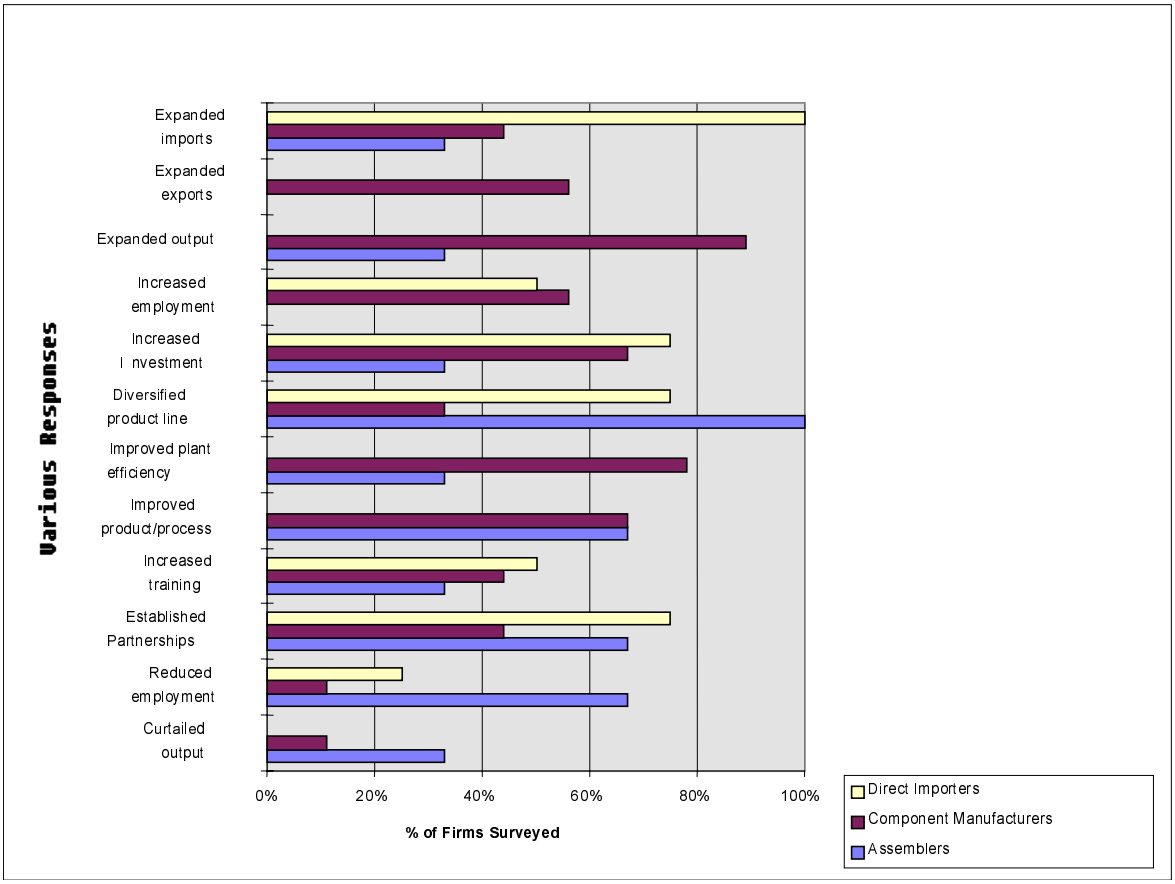
With the introduction of Phase VI and later the MIDP, the South African automotive sector is increasingly being opened to import competition. Imports of original equipment components increased from R7.5 billion in 1994 to R10.3 billion in 1997 before declining in 1998. Nearly 80% of original equipment components are imported from Japan and Germany. Virtually none come from South Africa's SADC neighbours, where the small component facilities lack the required quality accreditation and are mainly geared to the aftermarket.

Zimbabwe's Automotive Trade

Survey results[14] indicate that Zimbabwean vehicle assemblers have been under severe pressure from cheaper imports (Figure 4.1). Imports of vehicles into Zimbabwe, on average, account for approximately 30% of the domestic market and 70% of imports are from South Africa, with the remainder being largely second hand imports from Japan.

Fig. 4.1: Competitive Responses to the ESAP

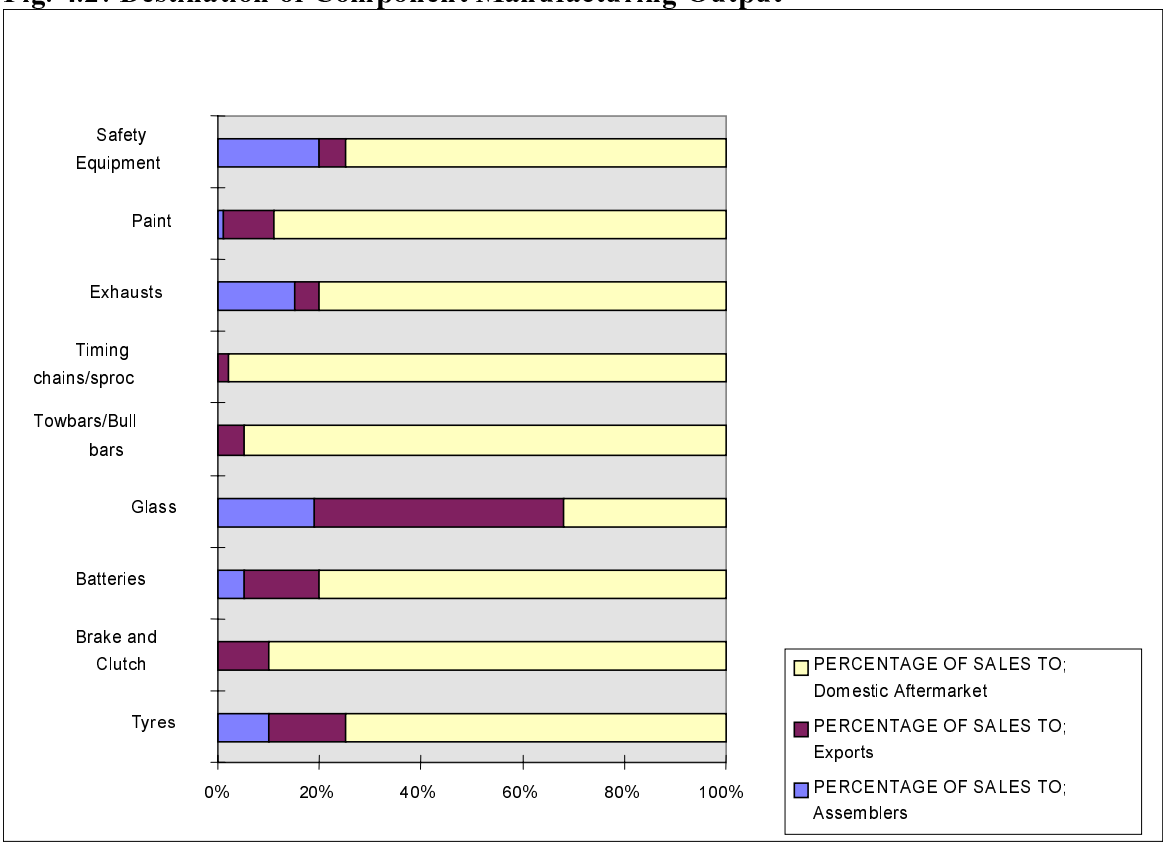
[14] The survey results contained in this chapter are based on interviews conducted with executives in the Zimbabwean automotive industry during 1999. For further detail see Muradzikwa (1999).



Source: Survey data

Zimbabwean component producers have generally fared better than assemblers, although the effect of structural adjustment was very much contingent on the market in which they operated. Firms reliant on the supply of original equipment components have struggled but these constituted a small group. The aftermarket has always been important for the majority of established producers and this reliance has increased as local content levels have declined (Figure 4.2). The automotive sector in Zimbabwe is also heavily dependent upon imported capital goods and technologies. Survey results suggest that 90% of all capital goods in the automotive sector are imported, South Africa, United Kingdom, Japan and the U.S.A being the major sources. In total component production, just over 52% of intermediate goods are imported with the main source again being South Africa.

Fig. 4.2: Destination of Component Manufacturing Output



Source : Survey data

Zimbabwe exports little to the region or elsewhere. Survey results cite the lack of government support, political uncertainty, unfair competition from South African firms who benefit from the MIDP[15] and licensing restrictions as the factors constraining export expansion. In 1998 only 2% (or less than 200 units) of all vehicles assembled were exported. Component exports have fared somewhat better with 12% of component output being exported compared to only 3% of the total in 1993. With the exception of glass which is mainly exported to the US, most component exports are to the relatively poorer markets of SADC[16] such as Malawi, Mozambique, and Zambia.

Automotive exports from Zimbabwe into the major regional market (SACU) have in fact been declining and in 1997 comprised only 4% of imports from SACU into Zimbabwe compared to 70% in 1993 (Table 4.7). Apart from the more developed capacity of the South African industry, trade liberalisation in Zimbabwe following structural adjustment and the assistance given to SACU automotive exports under the MIDP have contributed to this growing trade imbalance.

[15] This is considered to be a problem by component producers exporting to African markets outside of South Africa, which to some extent constitute a natural market for Zimbabwe because of its location and more developed manufacturing sector. Producers of batteries, tyres and exhaust systems were most affected.

[16] And to some extent those in east and central Africa.

Table 4.7: Zimbabwe's Automotive Trade with SACU (Rm current)

	1993	1994	1995	1996	1997
Imports to Zimbabwe	185.1	336.1	466.1	598.1	676.9
Exports to SACU	54.7	28.2	19.6	33.2	27.3
Zimbabwe's trade deficit	130.4	307.9	446.5	564.9	649.6

Source : Department of Trade and Industry (unpublished data)

There have been some investments by Zimbabwean component producers in some of the other SADC countries in the past five years. These investments have been targeted mainly at the aftermarket for spare parts, and in most cases consist of distributors of components that are manufactured in Zimbabwe.

The Used Vehicle Market in SADC

One important policy question that emerges from the analysis of the automotive industry in Southern Africa, is how to approach the fast-growing second hand car market, in particular, the import of used cars from countries in the Far East such as Japan. In South Africa the import of used vehicles for use in South Africa is very strictly controlled. However, her smaller neighbours in the region find themselves in a dilemma. On the one side, these relatively cheaper imported used cars provide a cheap means of transport for the people of the region. On the other hand, unrestricted imports of used vehicles are likely to stifle the potential development of the regional automotive industry.

The issue of used car imports is particularly prominent in Zimbabwe. In recent years, there has been a rapid increase in the importation of used cars from the Far East which provide relatively cheap modes of transport for an increasingly poorer population. Even established dealerships such as *Toyota Zimbabwe* have been forced into importing used cars in order to cope with viability concerns through broadening its customer base. It has virtually become a survival strategy for many dealerships/distributorships in Zimbabwe[17]. This activity is necessitated by the continuously increasing prices of locally assembled vehicles, and the very high duties (up to 140%) applied to imported built up vehicles.

The Zimbabwean government has taken no steps to prohibit these imports and has assisted dealers acquire the necessary import licenses, suggesting that against the background of economic deterioration, the government is actually trying to encourage this market to grow. In spite of the negative consequences associated with these imported used cars, they do provide aftermarket opportunities for some of the existing and potential component manufacturers. Used cars normally require more immediate aftermarket attention than new cars. However, there are problems with respect to some of the

[17] See for instance, "Guaranteed used cars a rarity in Zimbabwe" *Financial Gazette*, 01 June 2000.

vehicles' spare parts that cannot be sourced locally[18]. Also, the Japanese imports are not equipped with radiators suitable for tropical operating conditions or with suspension systems appropriate for Zimbabwe's relatively poor road conditions.

5. MOVING TO REGIONAL INTEGRATION: THE SADC TRADE PROTOCOL

It is clear, therefore, that the integration of the automotive industry in SADC is at an early stage. South Africa exports to the rest of the region and South African based firms have modest investments but the inter-linkages are minimal. Vehicle exports, while important, are not for the most part key to the strategies of SA based assemblers and component exports are primarily into the after-market. For its part South Africa imports very little from the region.

Nevertheless, the regional automotive landscape could change quite rapidly as the free trade protocols are implemented, particularly if the momentum towards higher growth rates in the region is sustained. This section concludes, therefore, by considering the likely trajectory of developments in the years ahead.

SADC proposals for the automotive industry

In the initial SADC protocol, which established the intention to move towards free trade, it was recognised that South Africa's neighbours had justifiable concerns that under a free trade arrangement, the existing concentration of industrial development in the largest and most developed economy, South Africa, was likely to be accentuated. The protocol therefore allowed for additional time for neighbouring countries to open up their markets.

In the SADC trade talks, both SACU and Zimbabwe have placed their automotive industries on the list of 'sensitive' products to be negotiated separately. From a South African perspective, this is partly because of the complexities raised by the existence of the MIDP. A 1999 SACU position paper[19] sets out two proposals. Firstly, if Zimbabwe or any other SADC country adopts the MIDP in full then all MIDP rules on manufacture would apply. This would mean that no import rebate credit certificates[20] can be issued by SADC countries wishing to export into SACU (and vice versa) and there would be no tariff barriers between SADC countries and SACU with regard to automotive products. Secondly, if Zimbabwe or any other SADC country chooses to remain outside the MIDP, then there will be no tariff concessions by SACU on either vehicle imports or automotive components. There is also the possibility of bilateral arrangements.

The likely impact of the proposals

[18] See, "Motor traders face tough times ahead", *The Herald*, 18 December 1997.
[19] See "SACU Position in Respect of Motor Vehicles and Components", unpublished report.
[20] These are the certificates which allow exporting firms to rebate import duties.

The South African perspective

South African vehicle assemblers do not feel threatened by the prospect of competition from other SADC members and in this sense would welcome the removal of trade barriers. With free trade in SADC, it is likely that the vehicle operations of the global carmakers would be consolidated into a single regional entity most probably headquartered in South Africa and South African based firms would obviously welcome such a development. However, for a number of reasons, South African based vehicle manufacturers are lukewarm about the prospect of a free trade arrangement. Firstly, they currently benefit from the extremely favourable conditions of the MIDP, which effectively subsidise exports into the region. These import-export complementation arrangements would obviously have to be eliminated if a free trade arrangement was to take effect and firms feel that the removal of trade barriers into SADC markets would only partially compensate for this. More significantly, the SADC market is not perceived to be very important at least in the short term and in any event the market share of South African producers is already high. In addition, South African firms fear the possibility of reduced regulatory controls under a free trade scenario. While customs controls in South Africa are being improved, evasion is widespread and vehicle manufacturers are concerned that the introduction of a large free trade area would only increase these opportunities. Used vehicles imported into the BLNS countries already find their way into the South African market on a large scale.[21]

Concerns of other SADC member states

South Africa's neighbours in SADC face two major concerns. Firstly, and this applies to those which have existing automotive investments or aspire to develop these, there is the concern that all automotive activity would locate in South Africa because of its already much more developed automotive infrastructure and larger market. Secondly, there is the issue of customs duty and the potential losses that could be incurred by increased sourcing of automotive products from a relatively high cost producing country like South Africa and the loss of customs revenue, which will result.

a) Concentration of the automotive industry in South Africa: For the most part, the SADC states outside of South Africa do not possess locational advantages for automotive production. Disadvantages include the small domestic market especially the low income of the population, limited infrastructure and a lack of skills and support services for the automotive industry. Furthermore they face competition from the more established industry in South Africa and for some countries transport costs to the centre of the regional market in South Africa is a further constraint.

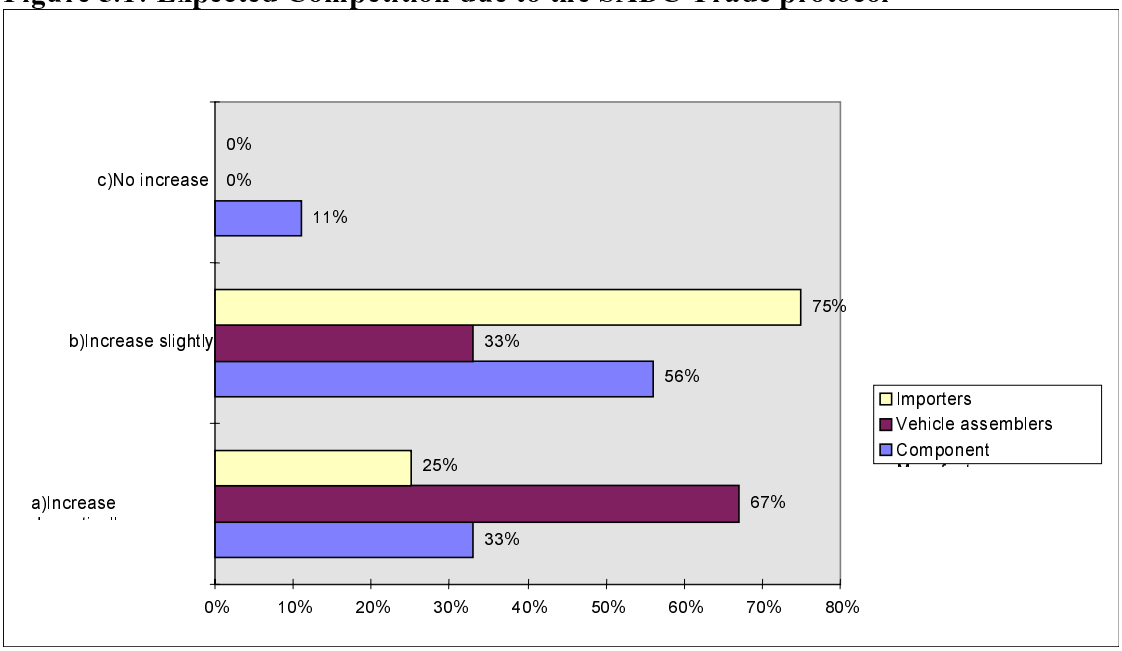
Regional integration is likely to have a major effect on the existing automotive operations of South Africa's SADC neighbours. The Zimbabwean assembly industry for instance faces major adjustment. Low volumes, dated plants, quality problems, restrictive

[21] Used vehicles can only be imported into South Africa under permit of which very few are issued.

licensing agreements, the absence of clear industrial policy and the domestic economic crisis are all factors which negatively affect prospects. Vehicle prices in Zimbabwe are on average 60% and 120% higher than in South Africa for new and second-hand vehicles, respectively (Muradzikwa, 1999:9).

In the course of interviews, officials of the Confederation of Zimbabwean Industry conceded that the SADC Trade protocol, while bringing about greater intra-regional trade, is likely to result in the shrinking of the automotive sector and possibly the closure of certain operations as part of the streamlining of the Zimbabwean industry. Vehicle manufacturers, themselves, expect competition to increase significantly with survey results indicating that two out of three firms are expecting a dramatic increase in competition (Figure 5.1). Interestingly, two out of three firms expect to expand output and all expect to establish new foreign and domestic partnerships (Table 5.1). Foreign partnerships are undoubtedly the key and offer the possibility of expansion into the much larger South African market and beyond. But much depends on the overall investment environment, which currently is extremely poor.

Figure 5.1: Expected Competition due to the SADC Trade protocol



Source: Interviews.

Table 5.1: Planned Responses to the SADC Trade Protocol

	% Of Vehicle Assemblers	% Of Component Producers
Expanding output	67	78
Establish foreign/domestic partnerships	100	44
Reduce product price	33	22
Increase training	67	33
Increase investment	33	78
Improve product/process technology	33	44
Expand exports	100	89
Improve plant efficiency	67	56
Diversify product line	33	11
Standardise product line	0	33

Source: Interviews.

Based on survey responses, component producers stand a far better chance of withstanding and indeed benefiting from, trade integration. Advantages of Zimbabwean component manufacturers include labour costs, an established industrial infrastructure and the central location of Zimbabwe in the SADC region. Exports have traditionally been an insignificant proportion of total output. But this has been changing over the past 5-6 years, where trade liberalisation and general economic reforms have encouraged

component producers to increase exports. The aftermarket sector in particular has proven to be the most resilient and has significant growth prospects.

Countries such as Mozambique which have small component operations face very limited prospects without access to the larger regional market. Their internal markets are insufficient to justify increased investment or production runs which can even begin to achieve economies of scale even for aftermarket components such as exhausts. Firms in Mozambique, for example, face increasing competition from South Africa and are unable to compete on the basis of their very low volume production. Some have also lost markets to South African producers in other SADC countries. They generally feel that they have more to gain than to lose from a free trade arrangement with SACU.

b) *Trade diversion:* The second concern for South Africa's SADC neighbours is that of trade diversion and concomitant loss of customs revenue as well as potentially negative implications for foreign exchange usage. This clearly depends on the duty structure, which will be applied by SADC. In the automotive industry, which retains fairly high protective tariffs, it is possible that the negative impact of trade diversion would be fairly large.

While consumers could gain by paying slightly less on imported vehicles and components (they would no longer pay duty) this gain could be more than offset by the loss of customs revenue as SADC countries substitutes cheaper (e.g. Japanese or European) vehicles (and components) with more expensively produced South African products. Complicating this calculation is the fact that a large share of SADC's current purchases of new vehicles (and components) are from South Africa and are effectively subsidised under the MIDP. Under a free trade arrangement, South African exporters would no longer derive MIDP benefits from vehicle or component exports to members of the free trade area and could be expected to raise prices accordingly. The extent of trade diversion would therefore depend on the level of external tariffs on vehicles imposed by SADC, the extent of the cost premium by South African vehicle producers and also the treatment of second hand vehicles.

Appropriate policy for SADC member states

Based on the development of the automotive industry in the region to date most of the SADC countries outside of South Africa would be unlikely to attract significant investment in the automotive industry in the short term. But as individual markets, their prospects are even more limited.

For countries such as Zimbabwe the best course may be to join the MIDP but to argue for a slower phasing down of access to their domestic market from South Africa at least for vehicle production and selected aftermarket products. Any further restrictions on the importation of original equipment components than already apply under the MIDP would rule out the possibility of significant further investment in the Zimbabwean assembly industry

For countries, which opt not to adopt the MIDP, there would be little or no prospect of further investment in the automotive industry. If tariffs were raised, a small amount of investment could be attracted, but given the small market this would come at high cost and would be counter productive. Existing customs revenue would be maintained and could be expected to increase over time. Vehicle costs could also be kept low through the continued importation of used vehicles although this would continue to pose problems for the collection of customs revenue.

It may suit some countries to adopt the MIDP for components only. This could allow the advantage of full market access to the South African market for component suppliers. Firms exporting outside of SADC or to SADC countries which have not joined the MIDP would be able to earn Import Rebate Credit Certificates which could be used to import vehicles or components into SADC or sold. This strategy may encourage the full integration of certain existing and new component suppliers into regional and even international production networks. It would probably be essential for existing or new independent component producers to enter into joint ventures with South African or other foreign firms because in order to compete they would need to have access to the entire region in specific niches. Firms, which are not able to do this, would face fierce competition from other producers in the region.

The South African offer cites the possibility of bilateral arrangements, which raise the issue of negotiating special conditions. Possibilities may include differential rates of phasing down duties, production or revenue sharing arrangements etc. These need to be explored in further detail.

6. CONCLUSION

This paper has sought to sketch out some of the key issues in terms of the current developments in the regional industry, the likely response to freer regional trade and appropriate policy for individual country governments.

While regional economic integration is important for all members of SADC as a means to enlarge the size of the market for regional trade and to attract foreign investment, the process is at an early stage. As has been indicated above, from the perspective of the South African industry, trade and investment ties with the major automotive producing regions particularly the EU are currently of much greater significance. These ties will be strengthened by the recently signed EU-South Africa Free Trade Agreement[22] and South Africa is also exploring closer trade links with Latin America and the countries of the Indian Ocean rim. The automotive industry in southern Africa has not really yet developed a regional identity and certainly does not constitute a viable region which could support a fully integrated automotive industry.

[22] Much of the automotive industry has been excluded from the initial agreement but will be finalised in further negotiations in 2000.

At the outset, we stated that a key concern for South Africa's neighbours in SADC was the possibility that all automotive activity would locate in South Africa. To date regional integration has consisted primarily of a large expansion in the export of vehicles and components from South Africa to other parts of the region. To a lesser extent there has also been investment from South Africa into the region and the consolidation of the southern African subsidiaries and licensor firms affiliated to large American, European and Japanese automotive multinationals. In the short term, therefore, it is probable that complementarities would fall outside of the automotive industry for example in clothing and textiles where countries such as Zimbabwe would certainly have a comparative advantage.

However, the past is not necessarily a good guide to the future and given the existence of partial or complete sanctions against SA until 1994, ongoing trade barriers and, until very recently, low growth rates in the region, it is hardly surprising that the linkages are not more developed. Two developments, both of which are already starting to happen, are likely to change this scenario. Firstly, the reduction of regional trade barriers will have an important effect on the patterns of investment and trade especially in countries such as Zimbabwe, which already have a rudimentary automotive infrastructure. Secondly, growth prospects for the region are now better than they have been for two decades. Freer regional trade will encourage foreign investment and the development of new networks; and quite possibly the establishment of new locations for any of the large number of production processes, which make up the automotive industry.

There can be little doubt that regional integration is an essential building block for the automotive to develop successfully in southern Africa and indeed in Africa as a whole. As the dominant industry in the region, South Africa has a special responsibility to take a far-sighted view and secure an overall agreement that offers enough to other member states to bring about freer regional trade.

APPENDICES

Appendix 1: The MIDP as amended in the Mid Term Review

Year	CBU Duty (Light vehicles)	CKD duty	SVI Additional DFA	Qualifying value of eligible Export Performance	Components, heavy duty vehicles & tooling exported: CBU light vehicles imported	Qualifying Precious Metal Content in Catalytic Converters
1999	50.5%	37.5%	R40 000@3%	100%	100:75	90%
2000	47.0%	35.0%	R44 000@2%	100%	100:70	80%
2001	43.5%	32.5%	R44000+PPI@ 1%	100%	100:70	60%
2002	40.0%	30.0%	WITHDRAWN	100%	100:65	50%
2003	38.0%	29.0%		94%	100:60	40%
2004	36.0%	28.0%		88%	100:60	40%
2005	34.0%	27.0%		82%	100:60	40%
2006	32.0%	26.0%		76%	100:60	40%
2007	30.0%	25.0%		70%	100:60	40%

Source: DTI Press release

Appendix 2: Productive Asset Allowance

To encourage investment in plant modernisation a new support package has been introduced in the form of a Productive Asset Allowance (PAA).

Government policy has sought to encourage greater scale economies and in line with world trends, certain South African based manufacturers are moving towards common platform engineering with a reduced number of component suppliers.

The PAA is a non-tradable duty credit calculated at 20% for the qualifying investment in productive assets, which will be spread equally over 5 years. Assemblers can utilise this duty credit against CBU imports only, which will sustain the range of product being offered to the consumer but not necessarily being locally produced. Marginal low volume products could therefore be discontinued and production capacity focused on higher volume products for global consumption.

Component manufacturers who are being encouraged by these assemblers to invest in new plant and tooling to support their own expansions will be awarded the same PAA as above with the proviso that 80% of the duty saved be passed on to the component manufacturer. The 20% remaining duty saved by the assemblers on such investments will serve as encouragement for strategic component investments being attracted to supply local assembly plants.

To qualify assemblers must submit a detailed business plan to the Director General of the Department of Trade and Industry to be considered according to strict criteria on a case by case basis for the most recent investments in the industry. Companies, which received support through the now discontinued Tax Holiday Scheme or any other investment support will not be considered.
(Source: DTI Press release)

Appendix 3: Mid Term Review: Amendments to the Medium and Heavy Vehicle Programme

	Duty	**Extent of rebate**			
	OE Components	Drive-train components	Tyres	Cabs/bodies	Other components
1 Jan 2000	35%	Full duty less 15%	Full duty less 15%	Full duty	Full duty
1 Jul 2000	35%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2001	32.5%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2002	30%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2003	29%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2004	28%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2005	27%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2006	26%	Full duty	Full duty less 15%	Full duty	Full duty
1 Jan 2007	25%	Full duty	Full duty less 15%	Full duty	Full duty

Note: The extent of the rebate on cabs of an integrated load-body design and panel vans/buses under rebate item 317.07 as well as the CKD definition for these vehicles as set out in Chapter 98 be further investigated with a view that these vehicles comply with the CKD definition applicable to light motor vehicles.
Source: DTI Press release

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