South african automotive industry - impact of globalisation

1. Introduction

This paper discusses the impact of globalisation on the South African automotive industry in the business context. It explains the concept of ‘ globalisation’ and the importance of globalisation on the South African automotive industry. We explore the innovation, development and skills required in a globalized industry. This paper summarises of the current research of the business imperatives of globalisation in the South African automotive industry, which must be aligned with foreign investment and ownership, development of local skills, manufacturing and exporting.

2. A Definition of Globalisation

According to Held and McGrew [2003: 3], the term ‘ globalisation’ denotes the growth of connections between various countries that exists as society and states become increasingly entangled in worldwide systems and an exchange of communication via interaction.

Kugut (1999: 166) defines globalisation as a means of union between nations and companies achieving a common way of doing things. Gill (1999: 70) defines globalisation as a method of growing economic integration, and a rising economic interdependence between the different economies of countries. Kiely (1998: 3) defines globalisation as a world that has brought closeness of different economies, cultures and societies. Braithwaite and Drahos (2000: 8) define globalisation as the growth of social, cultural, economic and political relations worldwide.

These definitions highlight the magnitude of globalisation. A number of theorists present various meanings for globalisation. Essentially, all of these definitions describe economic, political and social integration on a worldwide scale. The globalisation method occurring in one part of the world influences what is taking place in other parts.

3. Globalisation as an Investment Driver of Growth in the Automobile Industry

According to Flatters [2005], Foreign Direct Investment (FDI) has increased substantially in the South African automobile industry since 1995. It is difficult for South Africa to compete against other automotive supply chains around the world. This requires large amounts of capital, experience, skilled workers, and the latest technology systems. According to Zhu, Xu and Lundin [2006], high-end technology is required for any industry to compete in a sustainable manner, and this is very costly in terms of finance and time. According to Flatters [2005], in 1995 the initialization of the Motor Industry Development Plan (MIDP) and the Productive Asset Allowance (PAA) incentive scheme set a high standard of Foreign Direct Investment in the South African automotive industry. As a result, investment in this sector is high and vehicle exports have grown.

4. Positive effects of globalisation in South Africa – Innovation in the South African Automotive Industry

According to De Klerk [2006], ever since the Motor Industry Development Plan (MIDP) was brought in by the government in 1995, the South African automotive industry has integrated into the global automotive supply chain. The MIDP have removed all the competition from the automotive industry. Initially, when foreign ownership had a part in the South African automotive industry, it seemed as if it would have a negative impact on the South

African automotive industry. According to De Klerk, JJ [2006], foreign ownership is exactly what the South African automotive industry needed. According to Lourens & Barnes [2004], in order to improve in the industry, South African automotive industry technology needs to be improved. This requires foreign capital investment, and the opportunity for the domestic market to take advantage of it. When foreign and domestic markets work together, the technical knowledge is transferred to the developed country, which is then able to progress forward. Many authors have confirmed that when a country inherits the technology that comes with Foreign Direct Investment, the host country will have a very good base to develop its industry further. [Sadoi, [2008]; Doctor, [2007]; Basser, [2008], Lorentzen and Barnes, [2004]]

According to Flatters [2005], South Africa has attracted substantial foreign investment over the past few years – for example, Daimler Chrysler, and Alfa Romeo have invested here. However, this is very little compared to other developing countries. Multinational enterprises (MNE) view South Africa according to its size and for the potential for future growth in its domestic market. MNE look at the advantages that can taken from unsettled exchange rates in developed countries, the experience and quality of the workforce, and whether it is a low cost centre compared to other nations.

According to De Klerk [2009], South Africa presents a beneficial emerging market for the multinational enterprises. South Africa’s population growth has increased by 8 percent (around 3571 350) in 1994 and by 11. 9 percent (around 5333 550) in 2000, and is still growing. There are advantages that can be taken from the defect of the exchange rate. Wessells (2004) says that since the death of the Bretton Woods system, countries worldwide may choose an exchange rate ruling. According to De Klerk [2009], South Africa has a promising economy with an unpredictable currency, which is seen as a great benefit to the multinational enterprises. The quality and competence of the South African automotive workers are not of high standard. According to De Klerk [2009], the industry has a lack of skills and a surplus of untrained laborers.

5. Foreign Ownership, Education and Skills Development

According to De Klerk [2009], it is expected that the same level of skills in a developing country be matched to that of the foreign investor. However, in developing nations the level of education is not that high. According to a literature review by Chatterji & Montagma [2008] on foreign ownership, the multinational enterprise expects developed countries to have a high level of education before investing. Nevertheless, foreign direct investment continues although the standard of education is not high. The research done by authors Chatterji & Montagma [2008] around training and processes and routines found that:

- developed countries would receive on-the-job training
- training is carried out with the use of advanced technologies
- multinational enterprises is impacted with quality of assembly line by the processes and routines of the host countries laborers.

According to De Klerk [2009], the low cost of laborers in the local economy and processes and routines are beneficial to the multinational enterprises, with the aid of advanced technologies.

6. The Development of the South African Automotive Industry

According to Black [2009], the South African automotive industry went through a bad period in the 1980's. The economic growth was slow due to political factors and international isolation. Vehicle sales had gradually recovered up until 2003, and had reached 617 000 units in 2005. According to NAAMSA [2006], 525 000 vehicles were produced in 2005, of which 26. 6 percent were sold abroad. By the year 2005 the South African automotive industry was liable for 7. 4 percent of South Africa's Growth Domestic Product. (DTI, 2007).

According to Black [2009], like most other countries with growing economies, the South African vehicle industry had set tariffs and a string of local content programs aimed at protecting the industry. According to Black [2009], the protection ruling became a serious problem 1980's, which led to the perception South Africa automotive industry as incompetent. According to Black [2009], a year before the first democratic elections, the Motor Industry Development Plan (MIDP) was introduced. This has allowed tariffs to decline by 40 percent for light vehicles and 30 percent for vehicle components before 2002.

According to Black [2009], the MIT's International Motor Vehicle Program published its first book on the future of the automobile industry. The South African automotive industry was not mentioned much, but the book contained some negative comments on the future of the South African automobile trade.

7. Automobile Exports

According to Black [2009] motor vehicle exports grew fast in 2001. The increase in the quantity of vehicle exports does not mean that a foreign firm is being competitive in the automobile industry. Being competitive relies on the company global plan and the need to optimize its global manufacturing ability according to the policy ruling at each production location. The significance of economies of scale increases competitive pressure on companies in the automotive industry, requiring that they boost their production in order to decrease unit costs [Black, 2009]. In 2005, the export of motor vehicles grew rapidly as foreign companies had to adopt a strategic plan to supply vehicles out of South Africa.

According to Black [2009], in 2001 the three German vehicle companies, BMW, Volkswagen and DaimlerChrysler introduced an export strategy that was generating almost 50 percent of their import rebate credit certificates from exporting vehicles. Other vehicle firms like Ford and Nissan consistently practiced a multi-modal plan, using low local content standards. By 2005, Toyota and Ford employed an export plan together with other assemblers that followed later. The growth and success in the export of the automotive vehicles has been driven by the Motor Industry Direct Plan. Many multinationals do not see South Africa as an exporting location. Keeping costs low positively impacts the rapid growth of exports. The cheap labor and low management costs, joined with cheap property and electricity, add to the competitive advantages. According to Black [2009], in mid 2002 the cost of assembly for domestic firms such as DaimlerChrysler and BMW are below the manufacturing costs of the plants in Germany. High costs were gained in the South African processes through supply chain management . i. e. the inbound and outbound logistics. According to NAAMSA [2006], Automotive Industry Export Council [2007], Department of Trade and Industry [2002, 2004], the Table 1 below, signifies the growth of the automotive exporting in 1990's, which exceeded the small regional markets and major export destinations that are at considerable distances from South Africa.

The investment of vehicle production and component producers has gradually improved since the depression in the mid 1990's, when unclear politics and policies and a weak domestic market led to a serious slump in new capital expenditure. According to Black, [2009], an amount of capital totaling R847 million was invested in the automotive manufacturing industry in 1995. By 2005 this had increased to R3. 5 billion. South African production plants still lag behind in capital expenditure compared to the vast capital expenditure in explosive markets like China, Mexico, Brazil, Thailand, and Central Europe. [Black, 2009]

When the Motor Industry Direct Plan [MIDP] was introduced in the 1990's, the South African automotive industry entered in to the African markets. Unfortunately, this market was too small to increase the production line. On a smaller scale, the Completely Knock Down [CKD] assembly investments continued to grow. For example, in 1998 Fiat agreed to spend R250 million in order to manufacture new models from the Automaker production factory in South Africa. [Black, 2009].

8. Automobile Manufacturing based in South Africa

8. 1 Toyota in South Africa

According to Black [2009], the Toyota brand was popular in the 1990’s, with a big local market slice for its cars and light commercial vehicles. In the past, Toyota and Nissan were locally owned and operated by licensed agreements. Two well known international vehicle companies, Nissan and Toyota, have taken control of the South African automotive operations. These two firms have created a reaction amongst rival competitors in the South African market. Toyota South Africa has firmly incorporated itself into the parent global manufacturing system. The first Toyota vehicle exported out of South Africa was the ‘ Corolla’. In 2005, on a large scale, Toyota exported light commercial vehicles as part of its Global project, which was called the ‘ Internal Multipurpose Vehicle’ project. At its Durban plant, Toyota has started production and aim to complete 300 000 units per year. However, Toyota Motor Corporation (TMC) stated that the South African manufacturing plant will be entirely incorporated into the TMC global supply system.

8. 2 Ford in South Africa

According to Black [2009], Ford has a history in the automotive assembly line in South Africa. Ford withdrew its vehicle assembly plants in the mid 1980’s due to the political regime at the time. Toyota and Ford have reinvested into the South African domestic vehicle market after the first democratic election in 1994. At first they were hesitant to export vehicles out of South Africa on a large scale and therefore they kept their plants going worldwide, as well as knowing that there assembly production lines are in various markets. According to Black [2009], Ford Motor Company fully invested in South Africa in 2002 and has boosted its production line volumes by producing 100 000 units per year on the T6 pickups.

8. 3 General Motors in South Africa

According to Black [2009], Delta Motor Corporation is currently licensed to export under the brand name of ‘ GM’. Initially they had a problem exporting vehicles out of South Africa because they did not have a stake in the South African domestic market. In 1996, Delta invested in its first production plant in South Africa. It is a small plant that has a low production turnover on volumes. GM has started an export plan, but the units produced and content levels are too low. Additionally, their position in the domestic market is weak.

9. Conclusion

This paper reviewed the impact of globalisation on the South African automotive industry, and discussed measures that may allow South African automotive businesses to achieve their objectives through foreign investment and ownership, development of local skills, manufacturing, and exporting.