Sustaining automotive industry growth in South Africa

A review of the first five years of the Motor Industry Development Programme

by

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1. INTRODUCTION

In 1995, the South African government implemented the Motor Industry Development Programme (MIDP), a policy framework to support industry growth under a liberalised trade environment. The adoption of the MIDP was necessitated, in part, by the re-integration of South Africa into the global economy after many decades of economic isolation. The South African economy, in general, had to deal with new challenges of a competitive nature, as cheap imports from the rest of the world found their way into the country. The MIDP had specific objectives to achieve – international and domestic competitiveness, vehicle affordability, employment, local supplier development and improvement of the industry trade balance. The formulation of the MIDP was a consultative process and all stakeholders agreed that the MIDP provided the required impetus to grow the industry under open market conditions. Despite the progress made in integrating the

local industry into the global automotive value chain, taking forward the industry support has been characterised by tension among stakeholders. Hence, government has been compelled to review MIDP performance periodically and seek new consensus on the nature of its industry support. Apprehension has persisted within the industry, creating uncertainty among potential investors – one of problems the MIDP sought to solve in the first place.

This article traces the causes of tension among stakeholders in carrying forward the MIDP from a historical perspective. It reviews the genesis of the programme and industry performance under the dispensation. Achievements and shortcomings made in the first five years of the MIDP are highlighted. The article argues that to sustain industry gains made in the first five years of the MIDP and to avoid tension among stakeholders arising from the uneven industry performance, a new consensus that specifies weights to be attached to each of the programme objectives has to be developed. This did not happen in 2000 and so the tension within industry interest groups continues.

2. THE MOTOR INDUSTRY DEVELOPMENT PROGRAMME (MIDP) OF THE SOUTH AFRICAN AUTOMOTIVE INDUSTRY

2.1 Inception of the MIDP

In 1992, the South African government decided to appoint a special task team – the Motor Industry Task Team (MITG) comprising industry experts – to advise government on long and short-term strategies for the future of the automotive industry. The ap-

pointment of the MITG was necessitated by challenges and the limitation of using local content requirements as a policy tool to sustain growth of the industry in light of domestic and global developments in the automotive industry. To develop the local industry, the South African government had legislated local content requirements. Domestic vehicle manufacturers would offset part of the excise duties, based on the level of local content use.[1] Of significant importance to government were ways in which the growth of the industry could be maintained in a liberalised trade environment.

With the implementation of the Marrakesh agreement to which South Africa was party, industry had to implement changes to compete under less protection. Recommendations made by the MITG on vehicle affordability, duties, rationalisation and import-export complementation facility were not supported by the National Association of Automobile Manufacturing of South Africa (NAAMSA), the National Association of Automotive Component and Allied Manufacturers (NAACAM) and the National Union of Metal Workers of South Africa, the major stakeholders in the industry. Subsequently, the Board of Tariffs and Trade (BTT) was tasked to formulate a revised customs dispensation programme for the industry for light and heavy vehicles, based on recommendations by the Motor Industry Task Group (MITG), and putting into considerations feedback on the initial MITG report. The Board's first proposals were published in the government Gazette of 9 December 1994 for comment.[2] A final

1. A. Black, "Globalization and restructuring in the South African automotive industry", *Journal of International Development*, 13(6), 2001, p 779-80
2. South Africa, *Board of Tariffs and Trade: Notice 1345 of 1994*, *Government Gazette*, 16151, Pretoria, 1994

draft was adopted and implemented as from 1 September 1995. It came to be formally referred to as the Motor Industry Development Programme (MIDP).

2.2 Recommendations of the first MIDP

The overarching objective of the MIDP for light vehicles was the improvement of industry competitiveness to such an extent that it would survive in the long term under less protection. For heavy motor vehicles, the aim was to reduce their costs, with a commensurate reduction in the cost of inputs used in the manufacture of heavy vehicles.[3] To achieve this, it was recommended that customs duty on completely built units (CBUs) be reduced from 70 per cent to 65 per cent *ad valorem*. The duty was to be gradually phased down to 40 per cent *ad valorem* by 2002. For original equipment for use in vehicle manufacturer (OEs), it was recommended that their import duty be reduced to 49 per cent and gradually come down to 30 per cent by 2002. Duties for medium and heavy commercial vehicles were to be phased down too, to 20 per cent for CBUs and 25 per cent for OEs by 2000 (Table 1).

The phased approach for reducing import duties was to allow industry time to adjust to increased competition.

The MIDP introduced the following additional instruments in respect of the light vehicle segment to further the competitive objective:

3. South Africa, *Board of Tariffs and Trade Report 3625: Revised customs dispensation for the motor industry*, Pretoria, 1995

TABLE 1

MIDP phase down of import duty for CBUs and OEs for light vehicle, medium and heavy vehicle segments

(%)

	Light vehicle segment		Medium & heavy vehicle segment	
Effective date	**CBUs**	**OE components**	**CBUs**	**OE components engines**
January 1, 1995	65,0	49,0	40,0	50,0
January 1, 1996	61,0	46,0	37,5	45,0
January 1, 1997	57,5	43,0	35,0	40,0
January 1, 1998	54,0	40,0	30,0	35,0
January 1, 1999	50,5	37,5	25,0	30,0
January 1, 2000	47,0	35,0	20,0	25,0
January 1, 2001	43,5	32,5	-	-
January 1, 2002	40,0	30,0	-	-

Source: Department of Trade and Industry, *Board of Tariffs and Trade Report Nº 3625*, 1995

(1) An international trade duty rebate facility under which the following was applicable:
- Light vehicle manufacturers were entitled to 35 per cent International Duty Free Allowance (ITDFA). Both CBUs and OEs imported in the country could qualify for the allowance. The ITDFA was to be calculated based on total value of sales.
- Import-export trade balance rebate facility: The rebate allowed locally- based vehicle manufacturers to use foreign

exchange earned from exports to offset duty payable on imported CBUs and OE, net of the duty free allowance. Component manufacturers could also benefit from the facility.

- Export facilitation scheme: Any exporter could earn export credits under the scheme. The credits were to be awarded by means of Import Rebate Credit Certificates (IRCCs) and could be used by local vehicle manufacturers to reduce duties payable on imported CBUs and OEs. If the credits were to be earned by a component manufacturer or any other importer, they could be used to import replacement or after market parts, otherwise, they would be ceded to a vehicle manufacturer.

(2) Local content requirement on CBUs was abolished in order to allow vehicle manufacturers to improve on competitiveness and comply with the WTO trade obligations. Component local content was to be based on a component being wholly or partly manufactured in South Africa. A component would not be considered unless the final process of manufacturing was carried out in the Southern Africa Customs Union (SACU).

(3) Vehicle manufacturers could further benefit from the small vehicle incentive that provided additional duty-free allowance on motor vehicles below a net ex-factory selling price of R40 000. This incentive was to be phased out over a period of three years.[4]

4. *Ibid*

The MIDP adopted a separate dispensation for the medium and heavy commercial vehicle segment. The separate dispensation was because of the recognition that commercial vehicles were capital equipment, hence inputs in the production process. Under the revised dispensation on the medium and heavy commercial vehicles, the following were applicable:

(1) On duties payable:
- Excise duty on the vehicle category was discontinued.
- An initial rate of customs duty of 40 per cent on commercial CBUs was to apply. The duty was to be scaled down to 20 per cent over a period of six years. An import duty of 50 per cent was to be levied on imported of OEs (Table 1).
- Vehicles imported in a condition other than completely knocked down (CKD) would be subjected to 40 per cent customs duty.
- Imported OE for the manufacture of medium and heavy vehicles would be exempt from the payment of surcharges.
- Provision was made for a rebate of duty on subcomponents for the manufacture of OEs.

(2) Local content requirements were abolished.

(3) An import-export trade balance rebate facility, as in the case of light vehicles, was introduced.

3. TREND OF KEY INDUSTRY PERFORMANCE VARIABLES IN THE FIRST FIVE YEARS OF THE MIDP

Against the background of MIDP objectives, the emerging trend of key industry performance variables after five years of a gradual liberalisation process was informative on how to take forward the industry incentive dispensation.

3.1 Investment

Increased and sustained investment in the automotive industry was critical in the realisation of the programme's objectives. Economic theory is unfortunately ambiguous on the relationship between liberalisation and investment. Depending on market conditions, the opening up of a previously protected market may or may not increase investment. The theory of 'jumping' the tariff barrier is however well documented in international economics – firms that face significant barriers to enter a particular market opt to create subsidiaries to produce within the protected market as a way of avoiding the barriers. In accordance with the tariff-jumping argument, trade liberalisation measures decrease the cost of trade and could therefore reduce inward investment.[5] Despite a protected regime under which the industry was operating, seven global vehicle manufacturers – BMW, Daimler Chrysler, Volkswagen, Toyota, Fiat, Ford and Nissan were operating in the country by the time the MIDP was introduced in 1995. General Motors and Peugeot had previously withdrawn

5. United Nations Conference on Trade and Development, *World Investment Report, FDI Policies for Development: National and International Perspectives*, Geneva, 2003

production in the country because of political pressure. The highly protected South African automotive industry had been successful in attracting major global OEMs prior to 1995. It was critical that the liberalisation of the industry would not lead to less investment as vehicle manufacturers fell back on producing in cheaper locations overseas and simply importing into the country under the relaxed trade regime.

Industry investment trend was therefore an important aspect to keep track of as the industry opened up. Table 2 presents trends in investment by the domestically-based vehicle manufacturers for the five years before and after the introduction of the MIDP. It is noticeable that from 1990 to 1995, their investment in the country was on a downward trend, reaching a record low of only R400 million in 1993. Compared to the industry investment in 1990, investment had decreased by more than 25 per cent by the end of 1994. There was an urgent need to come up with a policy to rejuvenate investment in the industry by 1995.

The low investment trend reversed after the commencement of the MIDP. Vehicle manufacturers' investment jumped from R492 million in 1994 to R1 171 million in 1996, an increase of 138 per cent. By 1999, investment by domestic vehicle manufacturers had reached R1 511 million but seemed to level off at this point. Between 1996 and 2000, the average annual growth rate of the sector investment was 7,5 per cent. The MIDP seemed effective in stimulating industry investment by the end of the first five years of its operation.

TABLE 2

Investment expenditure by vehicle assemblers in South Africa

Year	Investment (*Rm*)
1990	660
1991	697
1992	858
1993	400
1994	492
1995	847
1996	1 171
1997	1 265
1998	1 342
1999	1 511
2000	1 562

Source: The Department of Trade and Industry (thedti) and South African Revenue Services (SARS)

3.2 Employment

Employment is an important factor when judging performance of any industry, particularly those of developing countries. Despite the rather contradictory objective of production efficiency through acquisition of state-of-the-art technology on one hand and sustaining jobs on the other, the success of the South African automotive industry could not be determined without looking at jobs created. Global evidence shows that the automotive indus-

try, more specifically the vehicle-manufacturing segment, may not necessarily create much direct employment. Nevertheless, there are exceptions depending on how employment created is defined. McAlinden *et al*,[6] using the case of the United States, concluded that the automotive industry was a significant employer and important contributor to the economy. Using the concept of employment multiplier to quantify indirect employment created by the industry, McAlinden claimed that for each direct job created in the US automotive industry, 2,9 more jobs are generated, down and upstream, in the economy. We took a conservative approach in the analysis of the employment trend in this paper – only direct employment in the industry was considered.

In stating MIDP objectives, a compromise to tone down on the employment objective was reached between government and the industry. It was stated that the programme intended to stabilise rather than create employment. In general, by the end of the first five years of the MIDP industry had not succeeded in creating employment. Assembly plant head count decreased from 38 600 to 32 300 between 1995 and 2000 and from 47 000 to 38 500 for the component sector. Overall, direct employment in the industry dropped by 1,7 per cent between 1996 and 2000 (Table 3).

6. S.H.K. McAlinden & B. Swiecki, "Economic contribution of the automotive industry to the US Economy: An update", *A study for Alliance of Automobile Manufacturers*, Michigan, 2003

TABLE 3

Employment in the South African automotive industry 1995 to 2000

Year	Assembly industry	Component industry	Tyre industry
1995	38 600	47 000	11 000
1996	38 600	45 000	10 000
1997	37 100	44 000	9 500
1998	33 700	40 000	9 100
1999	32 000	39 000	9 000
2000	32 300	38 500	8 600

Source: The Department of Trade and Industry South Africa

3.3 Production, import and export, and domestic sales

3.3.1 Production

Though investment was to be the driving factor for the industry's growth, it had to do so through increased production levels. The logic was that investment would increase production capacity and output. Increased production would lower average costs through the realisation of economies of scale and subsequently contribute towards competitiveness of the industry. Demand for factor inputs would increase and as a result, more people would be employed and sourcing of local components would rise.

On average, production (unit of vehicles produced) decreased by 1,4 per cent per year between 1995 and 2000. Production

reached a record low of 310 333 units in 1998, which was 78 109 units lower than the production level of 1995. Units produced in 2000 were 8,4 per cent lower than at the inception of the MIDP (Table 4). By the end of 2000, it was clear that the MIDP was not meeting its goal of stimulating domestic production. Policy makers had to contend with the paradox that the MIDP was succeeding in stimulating investment yet production was declining over the same period. If productivity was not falling, (which was less likely because increased investment is associated with improved technology and improved productivity) the production trend presented an anomaly that required investigation.

3.3.2 Imports and exports

One of the advantages of trade liberalisation is that it allows equalisation of global prices of commodities and services. Consumers in high cost producing locations are afforded the opportunity to get the same goods and services at lower global price levels, in case all trade barriers are done away with.[7] The automotive industry in South Africa had been producing too many vehicle models at a low and inefficient scale. The opening up of the industry led to competition between domestically produced vehicles and components, and imports. Given the background of low economies of scale, vehicle imports increased drastically in the first four years of the MIDP. By 1997, imports of vehicles into the country were 74 666 up from 22 305 units in 1995. Within the same period, exports of CBUs were also increasing

7. H. Hwang & M. Chao-Cheng, "The tariff-jumping argument and location theory", *Review of International Economics*, 10(2), 2002, p 361

but not as fast. With the exception of 2000, vehicle imports were consistently greater than exports (Table 4).

Improving the industry balance of payment was yet another MIDP objective not achieved successfully by the year 2000. The positive contribution of exports to the industry's balance of payment account was being crowded out by increasing levels of imports. The trade deficit seems to have been exacerbated by the import-export complementation arrangement of the MIDP, which indirectly encouraged imports, as the only means to use rebates earned.

3.3.3 Domestic Sales and Market

Market potential or the existence of effective demand – the desire for a product accompanied by the means to buy it – is an important factor when investors decide where and how to invest. According to Rhys (2000:1),[8] the three conditions necessary for the survival of a modern automotive industry are the best use of available resources at any level of production (lean production), economies of scale, and the existence of an effective market. Investment incentives are only marginally important when making investment decisions.[9] Investment by subsidiaries of all major global vehicle manufacturers in South Africa, under a protected market regime, could be attributed to the existence of a small but

8. G. Rhys, "Economic prospects for the automotive industry in the uk and Europe and its impact on Ford Dagenham", Centre for Automotive Research, Cardiff University Business School, 2000
9. C. Jenkins & L. Thomas "Foreign direct investment in Southern Africa: Determinants, characteristics and implications for economic growth and poverty alleviation", CREFSA Research Report, London School of Economics, 2002

effective domestic market for vehicles in the country. Limited competition meant that domestic manufacturers could price vehicles high enough to make profits despite producing at low levels. With the opening up of the industry to global competition, the market share for domestically produced vehicles was likely to decline as imports penetrated the local market. Yet, domestic market growth was an important factor to be considered by potential investors in the industry when making their long-term investment decisions.

Between 1995 and 2000, the size of the domestic market as reflected by the level of local vehicles sales was shrinking at an average 2 per cent per annum. Vehicle sales did pick up in 1997 increasing to 421 076 units from 399 967 units in 1996, but thereafter domestic sales declined. Total domestic vehicles sales in 2000 were 11 per cent lower than sales in 1995 (Table 4). The decline in sales emanated mainly from the car vehicle category. By 2000, it was evident that the domestic market could not support rapid industry growth to allow achievement of economies of scale. Exports provided the only viable means of achieving high production levels and subsequent industrial growth. With a small domestic automotive market, recording slow growth rates, the need to promote exports through a competitiveness enhancing policy was a necessity. If the industry was to continue on a growth path, stakeholders had to come up with creative means of entering markets outside the country.

TABLE 4

South Africa vehicle production, imports, exports and domestic market size, 1995-2000

Year		Production	Imports	Exports	Domestic sales
1995	Cars	242 488	22 305	8 976	255 817
	LCVs	133 719	4 034	6 356	131 397
	MHCVs	12 235	950	432	12 753
	Total	388 442	27 289	15 764	399 967
1996	Cars	235 359	41 768	3 743	273 384
	LCVs	135 641	4 559	7 125	133 075
	MHCVs	14 252	1 050	685	14 617
	Total	385 252	74 666	11 553	421 076
1997	Cars	226 242	51 978	10 458	267 762
	LCVs	121 204	4 550	8 000	117 754
	MHCVs	13 870	1 000	1 111	13 759
	Total	361 316	57 528	19 569	399 275
1998	Cars	193 212	59 951	18 342	234 821
	LCVs	104 862	5 122	6 806	103 178
	MHCVs	12 259	1 300	748	13 511
	Total	310 333	66 373	25 896	351 510
1999	Cars	212 291	54 426	52 347	99 669
	LCVs	101 907	4 343	6 581	103 178
	MHCVs	11 024	1 500	788	122 928
	Total	325 222	60 269	59 716	325 775
2000	Cars	230 577	61 749	58 204	234 122
	LCVs	113 269	4 114	9 148	108 235
	MHCVs	12 404	550	679	12 275
	Total	356 250	66 413	68 031	354 632

Notes: a) LCVs stands for light commercial vehicles. b) MHCVs stands for medium and heavy commercial vehicles. Domestically produced cars and LCVs total represent a proxy for aggregate local production. Information based on data collected by NAAMSA and estimates of non-NAAMSA sales. GDP growth rate represents GDP annual changes at market prices in real terms.

Source: National Association of Automotive Manufacturers, South Africa (NAAMSA) 2005

3.4 Supplier development

One of the MIDP objectives was the integration of domestic component suppliers into the global automotive value chain. It was envisaged that through support of locally-based vehicle manufacturing subsidiaries to supply to international markets by taking advantage of supply contracts negotiated and facilitated by parent companies in developed countries, domestic suppliers would be afforded an opportunity to participate in the global automotive business. The interactions between the domestic suppliers would also have other positive spin-offs in terms technological transfer and ex-efficiency.[10]

Supplier development, within the first five years of the MIDP was an illusive objective to evaluate. Because of the lack of data, local content use and local components sourcing were used as proxies for the level of local supplier development in the first five years of the MIDP. Supplier development could also have been evaluated by other proxies like the level of training that component manufacturers received and other positive externalities emanating from their interaction with the vehicle manufacturers, but data on these parameters was not readily obtainable. Local content and domestic component sourcing thus remained the most feasible parameters upon which to judge the extent to which domestic suppliers were enabled to participate in the international value chain of the automotive industry.

The share of locally sourced components used in domestic vehicle assembly was on a decline from 1992 to 1994 and remained

10. M.S Bwalya, "Foreign direct investment and technology spillovers: Evidence from panel data analysis of manufacturing firms in Zambia", *Journal of Development Economics,* 81(2), 2006, p 514

low but stable between 1994 and 1995.[11] There was a substantial reduction in the share of locally sourced OE components as a proportion of total component usage from 40,1 per cent in 1996 to 33,8 per cent in 2000 (Table 5). By implication, local OE manufacturers were proportionally benefiting less from the increased vehicle production. If the proportions of local component per each manufactured vehicle were to continue on the same declining trend of 1996, it would mean that as time progressed, the MIDP was becoming less and less effective in supporting local component manufacturing, one of the critical objectives of the programme.

TABLE 5

Imported and locally sourced OE components proportions 1996-2000

(%)

Year	Imported OE/Total OE	Local OE/ Total OE	Imported OE/ WVT	Local OE/ WVT	Total local content/WVT
1996	59,9	40,1	41,9	28,1	58,1
1997	61,2	38,8	42,8	27,2	57,2
1998	58,3	41,7	40,8	29,3	59,2
1999	60,0	40,0	42,0	28,0	58,0
2000	66,2	33,8	46,3	23,7	53,7

Notes: WVT = wholesale vehicle sale turnover

1) Total OE component usage relate to CBUs assembled for the domestic and export market.
2) The last three columns were derived on assumption that the non-material portion of local content (labour, cost, overheads, etc) was 30 per cent of wholesale turnover.

Source: Derived from data from the Trade and Investment South Africa (TISA) presented in Bell & Madula.

11. T. Bell & N. Madula, "South African motor industry policy in a cloud of uncertainty", National Institute of Economic Policy, Johannesburg, 2003, p 30

Total local content – both material and non-material – was on a down swing between 1996 and 2000, but declining at a lower rate than material local content viewed in isolation. Total local content (material and non-material) declined at average annual rate of 1,9 per cent between 1996 and 2000 – while the material local content decline rate was 3,8 per cent. The trend in local content use indicated that local vehicle manufacturers were systematically reducing use of locally sourced components. Bell and Madula (2003) contends that even after accounting for foreign exchange bias on the valuation of imported components, the decline in local content use and sourcing of domestic component was evident across the board.

The trend of declining local content use and domestic component sourcing by vehicle manufacturers was expected to continue in light of the declining import duty schedule. Cheaper imports would find their way to the domestic market and this would put more pressure on domestic components. Supplier development was yet another aspect on which the MIDP had little success five years after its commencement.

3.5 Vehicle prices

From 1995 to 1998, new vehicle price increases remained well below the domestic inflation rate measured in terms of the consumer price index. The years in question were characterised by relative exchange rate stability, significant reductions in levels of protection and increased competition through the advent of new importers and distributors in the local automotive industry.[12] The

12. National Association of Automobile Manufacturers of South Africa, *Annual Report: 2005*, Pretoria

TABLE 6

South Africa's consumer and vehicle price inflation rates
(*Base index year 2000, metropolitan areas*)

Year	Consumer price index	Vehicle price index
1995	**8,7**	**8,2**
1996	**7,3**	**2,7**
1997	**8,8**	**6,3**
1998	**6,7**	**4,3**
1999	**5,2**	**6,0**
2000	**5,4**	**7,2**

Source: Statistics South Africa

trend could not be sustained – as from 1999, cars prices in the country were above domestic inflation according to the national inflation rate and vehicle price indexes (Table 6). The failure of the MIDP to make cars affordable for domestic consumers has since become a point of contention between the trade unions and industry. The trade unions contend that the MIDP has skewed benefits in favour of locally-based vehicle manufacturing subsidiaries, with little benefit to workers and the general public. Their position gets support from some academicians that argue that MIDP incentives have been costly policy errors and that the attention given to the sector exceeds its contribution to output, export and employment.[13]

13. F. Flatters, "From import substitution to export promotion: Driving the South African motor industry", The Service Group: SADC Secretariat on Trade and Investment Policies, Gaborone, 2002

A major limitation in adjudicating whether the MIDP was successful in reducing domestic prices of vehicles was the realisation that vehicle prices in the country were a function of a number of factors, namely interest rates, financing options and packages, insurance premium, and disposable incomes. Vehicle financing institutions, vehicle dealers and the insurance industry had an impact on the pricing of vehicles in the country. Hence, vehicle prices could not be adequately addressed within the confines of the MIDP policy framework. To make vehicles affordable to domestic consumers required collaborative efforts from industry, government departments – the department of Trade and Industry, South Africa Revenue Services, National Treasury, and other vehicle service providers – banks and insurance companies. In this respect, making vehicle affordability an explicit objective of the programme, without further qualification, might have been an unrealistic expectation on the part of the MIDP policy formulators.

Another important dimension on vehicle pricing emanated from the import-export complementation incentive of the MIDP. The incentive acted as an indirect export subsidy, by way of its calculations being based on local content value exported. Exporting vehicle manufacturers were getting benefit over and above the actual price paid for each vehicle bought in the international market. The extra benefit on each vehicle exported disadvantaged domestic consumers in that the exporting company would be less willing to accept a lesser benefit than that obtainable from a global market sale. Economic theory postulates that export subsidies raise domestic prices, reducing consumption but raise output and export levels. Goods would be exported for less than society's marginal production cost and for less than the

marginal benefit of domestic consumers.[14] This seems to be case for South Africa's automotive industry.

4. INSIGHTS AND CONCLUSIONS

The MIDP was a well-intentioned programme intended to usher a previously protected industry into a competitive global environment. At the end of the first five years of the programme, industry performance was uneven in terms of the programme's initial objectives. Although investment and exports were enabled, vehicle affordability, stabilisation of employment, domestic supplier development and general progress towards global competitiveness had not yet been achieved. Further still, the increase in exports was based on 'improvised' competitiveness of an indirect export subsidy. There was a general feeling among local component suppliers and labour that their share of the programme benefit was not commensurate with the overall industry growth realised within the period. As such the two parties were reluctant to offer unqualified support to the continuation of the MIDP.

Achieving real competitiveness, ensuring linkages between the success of one objective with others and a clear understanding of cause and effect of policy action on major industry variables were among the many challenges that confronted policy makers and implementers of the MIDP in the year 2000. The MIDP incentive model did not take into account possible trade-offs between the various objectives that the programme set out to achieve. Five years after its commencement, it was not clear

14. D. Begg, S. Fischer & R. Dornbusch, *Economics*, Maidenhead, 2003, p 447

whether the programme had put the industry on the right trajectory to global competitiveness.

Sustaining automotive development in South Africa without compromising on achievement made, thus far, required a cost-benefit analysis of the MIDP. Stakeholders had to agree on specific weights to be attached to each programme objective in both the short and medium term. In so doing, key objectives critical to industry attainment of global competitiveness would have been highlighted – hence expectation from different stakeholders would have been put into context in the short term. This would have reduced tension created among stakeholders as a result of uneven industry performance and would have allowed the harmonious taking forward of government support of the industry. This did not happen in 2000 – as a result, tension and uncertainty within the industry continues.

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