The Obsolescing Bargain Theory within MNC – Host Country Relations of the South African Automotive Industry

Mpumelelo E. Zulu
13403126

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Abstract

The success of the South African automotive production industry relies on the industry support programs from the Government. The industry’s seven Original Equipment Manufacturers (OEMs) of passenger vehicles are wholly owned by respective Multinational Companies (MNCs) and they, together with the Components suppliers, engage with the Department of Trade and Industry, as Host Country (HC), in the development of the automotive industry support programs.

The research tested the Obsolescing Bargain Theory (Vernon, 1971) within the South African Automotive Industry context of three bargain cycles of the industry programmes, viz. 1989 Local Content Phase VI, the MIDP of 1995 and APDP introduced in 2013. The study explored the longitudinal interaction between automotive MNCs and the Host Country in terms of relative bargain power during the three bargain cycles.

Using the qualitative single case study method, nine industry stakeholders were interviewed, and responses were triangulated with secondary data. The findings provided the following insights into the automotive industry’s bargain power relations between government and multinational companies:

The relative bargain power shifted towards MNCs due to the locational disadvantage of the HC, FDI spill-over effects on components suppliers, employment and technology, as well as due to investments driven by short product cycles. Further insights emerged in terms of the collaborative nature of MNC-HC relations during the three bargain cycles due to industry significance.

This research was of value in extending research on the obsolescing bargain theory, particularly in the manufacturing industry. It was also of value to the future of bargain relations between the automotive and manufacturing industries with the government, in general.
Keywords

Obsolescing Bargain Theory; Multinational Companies; Automotive Industry; Original Equipment Manufacturers; Host Country; South Africa
Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Student Name: Mpumelelo E. Zulu

Signature: __________________________________

Date: 09 November 2014
Contact details: mpumelelo.zulu@gmail.com
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- This Research Project is dedicated to my late parents, Adelaide S’mangele Mdluli and Prince Frater Zulu. Thank you for everything you did for me.
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<tr>
<td>APDP</td>
<td>Automotive Production and Development Programme</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HC</td>
<td>Host Country</td>
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<td>MIDC</td>
<td>Motor Industry Development Council</td>
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<tr>
<td>MIDP</td>
<td>Motor Industry Development Programme</td>
</tr>
<tr>
<td>MNC / MNE</td>
<td>Multinational Companies / Multinational Enterprises</td>
</tr>
<tr>
<td>NAACAM / Naacam</td>
<td>National Association of Automotive Components Manufacturers</td>
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<td>NAAMSA / Naamsa</td>
<td>National Association of Automobile Manufacturers in South Africa</td>
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<td>NEDLAC</td>
<td>National Economic Development and Labour Council</td>
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<td>NUMSA / Numsa</td>
<td>National Union of Metalworkers of South Africa</td>
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<td>OB</td>
<td>Obsolescing Bargain (Theory)</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer</td>
</tr>
<tr>
<td>SA</td>
<td>(The Republic of) South Africa</td>
</tr>
<tr>
<td>TNC</td>
<td>Trans-national Company</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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Chapter 1: Introduction to Research Problem

1.1 Research Motivation

The South African automotive industry’s significance is premised on its overall contribution to the economy, export earnings, investments, employment, GDP contribution and multiplier effect in the economy (NAAMSA, 2014, p.5). Over the past two decades the industry has transformed into an internationally competitive, globally integrated industry supplying high quality automotive products to the domestic and global markets. It currently accounts for about one third of all manufacturing activity in the country, with the latest program designed to double vehicle production to 1.2 million units by 2020 (AIEC, 2014).

There are seven producers of light vehicles in the South African automotive industry and are all are wholly owned subsidiaries of multinational companies (MNCs or MNEs) (Black, 2009). The vehicle producers are also known as Original Equipment Manufacturers (OEMs) and they are BMW, Ford/Mazda, General Motors, Mercedes-Benz, Nissan/Renault, Toyota and Volkswagen (DTI, 2013).

Governments all around the world actively promote their countries by attracting automotive investments via policy and support measures, in recognition of the benefits that automotive investments generate in terms of economic growth, development and technology transfer (AIEC, 2013). South Africa is no different. Over the last 25 years, three automotive policy programs have been introduced to the South African automotive industry (Black, 2009).

With the policy programs, South Africa, as the Host Country (HC) increasingly entered into relations with the MNCs, and the programs formed the bargain cycles between MNC and HC. Over the different cycles the bargaining power of the MNCs has been changing. In a quest to understand the MNC-Host country relations in the three cycles the study employs the Obsolescing Bargain Theory.
The Obsolescing Bargain (OB) Theory, first introduced by Vernon (1971), holds that in the multinational-host country interaction, the initial bargain power is assumed to favour the multinational companies because the Host Country (HC) offers generous concession agreements to entice the firm (Egan, 2010). However, once the investment is proven sound and is operating successfully, the perceived level of risk drops and the host-country no longer views the high levels of return to the MNC as appropriate (Jenkins, 1986).

There is significant research on obsolescing bargain in extractive industries (Vachani, 1995), while there are few attempts to apply the obsolescing bargain model to manufacturing. Manufacturing does not have structurally based, and secular obsolescence found in natural resource industries (Kobrin, 1987). This research aims to understand the MNC – Host Country relations of the automotive manufacturing industry in South Africa against the backdrop of the Obsolescing Bargain Theory.

The context of the research will be three automotive industry programs that are the 1989 Phase VI Local Content Programme (hereafter referred to as Phase VI) which preceded the 1995 Motor Industry Development Programme (MIDP) and the 2013 Automotive Production Development Programme (APDP) which aims to double production to 1.2 million vehicles by 2020 (Lamprecht, Rudansky-Kloppers, & Strydom, 2011). The industry began its exposure to international markets in 1989 and accelerated the process in 1995 (Black, 2001).

1.2 Research Problem

Capital investment by OEMs during the MIDP period increased significantly from R847m in 1995 to R4.7bn in 2012, a cumulative value of R48.6bn (AIEC, 2014). This increasing annual capital expenditure alludes to an HC environment that supports MNC investment. Government investment supports are a standard entry on the list of items considered by MNE decision makers (Mudambi & Mudambi, 2005) and
government policy may thus focus on attracting firms that plan to locate attractive projects (Meyer, 2005).

In the original obsolescing bargain model, the goals of the MNC and HC are assumed to be conflicting (Eden, Lenway, & Schuler, 2004) whereas over the three bargain cycles the automotive MNC and HC appear to have similar goals. The more similar the goals are between MNC and HC, a successful bargain could result (Grosse, 2005). The similar goal of the 2013 APDP between MNCs and HC is to produce 1.2 million vehicles by 2020.

Unlike extractive investments, there have been few attempts to apply the obsolescing bargain model to manufacturing industry investment (Kobrin, 1987). There were limited longitudinal cases on the obsolescing bargain theory in the capital intensive automotive sector of manufacturing, especially with increasing capital investment over time. It further appears that MNC in the automotive industry maintain or increase their relative bargain power over the HC. In other words, the HC does not display increasing relative bargain power over the automotive MNCs.

This explorative research will be a longitudinal qualitative case study over the three bargain cycles, with an objective to answer the question:

Main Research question:

How do the MNC maintain or increase relative bargain power over the Host Country during the bargain cycles under investigation?

1.3 Scope of Research

The scope of this research was confined to the investigation of the relative bargain power relations between MNC and HC in the automotive industry. The scope focused on the following parameters of the period under investigation:
The three bargain cycles [1989 Phase VI, the 1995 MIDP and 2013 APDP] were primarily created for the production of passenger car and light commercial vehicles. They were policies aimed at catalysing the competitiveness of the South African automotive industry for a globalising world. Thus the focus of the research will be on this sub-sector of the industry.

NAAMSA (National Association of Automobile Manufacturers in South Africa), the member body of the seven automotive OEMs in South Africa. All OEMs are wholly owned manufacturing subsidiaries of their respective brand MNCs.

NAACAM (Association of Automotive Components Manufacturers), which supply manufacturing components to the OEMs. Together with NAAMSA, they represent the automotive industry on engagements with the Host Country which is represented by Department of Trade and Industry (DTI).

The DTI represents the Host Country, the Republic of South Africa. The DTI is responsible for the development, implementation and monitoring of the automotive support program policies that form the basis of this research.

National Union of Metalworkers of SA (NUMSA) – a key stakeholder in the automotive industry representing organised Labour in the bargain power relationship between MNC and HC.

Two professors in Economics, one at the University of Cape Town and another from the Gordon Institute of Business Science, University of Pretoria. Both academics have researched and published extensively on this industry.

Two senior managers employed at major OEM for an OEM-specific point of view.
1.4 Structure of the Research

The research will be structured in the following format:

The first chapter outlines the research problem and the motivation behind it. The objectives of the research will be indicated together with the relevance to business and academia.

The second chapter will review the literature on the Multinational company – Host Country relations, based on the evolution of the Obsolescing Bargain Theory. The contrasting views on the theory and its validity on manufacturing industries will be reviewed. The aim of the second chapter is to identify the gaps literature as well as to draw out the research question and guiding propositions which will be highlighted in chapter three.

The fourth chapter will discuss and defend the multiple case studies qualitative research methodology selected, while chapter five presents results from the semi-structured interviews conducted and published industry data reviewed.

The sixth chapter will be on discussion of results, in line with the literature review from the second chapter and the research questions from chapter three.

The concluding chapter seven will assess whether the objectives from the first chapter have been met. Recommendations for future research will also be outlined in chapter seven.
Chapter 2: Literature Review

2.1 Introduction

This chapter will review the foundational literature on the Obsolescing Bargain (OB) theory and Multi-National Company (MNC) and Host Country (HC). The contrasting views of the OB theory development will be discussed together with the changing dynamics of MNC-HC relations. The researcher will focus the OB theory to the automotive manufacturing industry as a prelude to the research question on the relative bargain power between automotive MNCs and the Host Country, South Africa.

2.2 International Business Theory and the Obsolescing Bargain Theory

The Obsolescing Bargain Theory was introduced to international business literature by Vernon (1971). The theory predicted that, while the initial bargain favoured the MNE, the relative bargaining power shifts to the host country government over time as the MNE assets are transformed into hostages (Eden, Lenway, & Schuler, 2004). Similarly, Kobrin (1987) stated that the foreign enterprise whose successful establishment had rested on some superior capability or knowledge loses its security of position as time erodes the initial advantage. Eden, et al (2004) described the obsolescing of the initial bargain as the position when the host country imposes more conditions on MNE, ranging from higher taxes to complete expropriation of MNE assets.

The obsolescing bargain theory was founded on international business theory. According to Grosse and Behrman (1992), international business theory should explain how issues of government concerned with TNC (Trans-National Companies) activities are defined, how they are negotiated, what trade-offs are involved, how differences are resolved and what adjustments are made over time and why.
Grosse and Behrman (1992) further defined the bargaining relationship as one that will lead to outcomes based on the efforts of the MNC and the HC to achieve their own goals, constrained by their own limited resources, on their interdependence and on their relationships with other relevant groups. The erosion of the multinational’s bargaining power is reflected in lower bargaining success – which is a measure of how close the terms of the deal negotiated are to the MNC’s objectives as opposed to the Host Country’s objectives (Vachani, 1995).

The traditional view of the Obsolescing Bargaining Model (Ramamurti, 2001) is in Figure 1 below. The model formed the basis of the research on bargain relations between MNC and HC the South African automotive industry.

Figure 1: Traditional Bargaining Model of MNC-HC Relations

![Traditional Bargaining Model of MNC-Host Government Relations](image)

Source: Ramamurti, 2001
Grosse and Behrman (1992) shared a similar framework to Figure 1 in terms of Bargaining Resources of TNCs and Governments of Host Countries. Furthermore, TNCs offer assistance in improving the host country’s internal balance (providing national income and employment opportunities), external balance (imports substitution) and other non-economic goals like HC relations with the MNC’s home government.

Therefore this theory was used as the basis for the investigation on the research question for the MNC sources of bargain power over the HC.

2.3 Criticism of the Obsolescing Bargain Theory

While the automotive industry’s significance emphasised the wider impact of the investments from this industry (NAAMSA, 2014), Wint (2005) asked whether the change in the environment for FDI meant that the obsolescing bargain has ended its cycle of explanatory usefulness and obsolesced, due to strictures of multilateral and bilateral investments.

Ramamurti (2001) advocated that the traditional bargaining model of MNC-Host developing country relations has become obsolete. He concluded that this shift cannot be explained within the framework of traditional bargaining models, because MNCs-HC can no longer be viewed as a static, two-party negotiation, but rather must be viewed as a dynamic, two-tier, multi-party bargaining process.

Egan (2010) found that it is no longer appropriate to think of MNC as subject to host country actions. He concluded that, in the end, the relationship between MNC and HC is often viewed by both as a positive sum game. The obsolescing bargain theory has been criticized for being simplistic (Vachani, 1995). In addition, the weakness of bargaining models was concentrating on the investment outcome rather than the bargaining process itself, and ignored intra-
state bargaining by viewing the State as a monolithic, undifferentiated whole (Bakir, 2014).

Despite the criticism the Obsolescing Bargain model can revitalised if we broaden the issue area by recognising that firms and governments engage in iterative bargaining over a wide variety of government policies at industry level (Eden & Molot, 2002). The authors further argued that the essential elements of the obsolescing bargain model can and should be retained. Therefore the research took cognisance of the propositions on the obsolescing bargain theory and its relevance to the manufacturing industry, including dynamic multi-party bargaining, as opposed to the traditional two-party static process.

2.4 South African Automotive Industry and the Bargain Cycles

The South African Automotive industry is one of South Africa’s most important sectors, contributing at least 6 percent to the country’s GDP and accounting for almost 12 percent of its manufacturing exports with the automotive and components industry accounting for 30 percent of South Africa’s total manufacturing output (UNECA, 2014). This industry remains a critical segment of many economies, because of its cross-cutting linkages across several industries and services as well as its documented contribution to various economic development imperatives.

The South African automotive industry has realised significant changes and growth supported by various policy programs, since the 1960s. The industry has undergone at least three bargain cycles in the past 25 years in the form of the 1989 Phase VI Local Content Programme which preceded the 1995 Motor Industry Development Programme (MIDP) as well as the 2013 Automotive Production Development Programme (APDP) (Black, 2009). The industry began its exposure to international markets in 1989 and accelerated the process in 1995 (Black, 2001).
Phase VI of the Local Content Program, in place from 1989 - 1995, was the turning point of the industry from an inward looking, import-substituting industry towards the development of an automotive export orientation. Phase VI appeared to be the first era of engagement between the HC and the foreign-owned OEM (Lamprecht, Rudansky-Kloppers, & Strydom, 2011). The period of Phase VI was coincident with a combination of significant macroeconomic factors on South Africa which included sanctions, the end of apartheid and reintroduction in the global community which led to changes in trade liberalisation (Barnes & Morris, 2008).

The Motor Industry Development Programme (MIDP) was introduced in September 1995 with tariff reductions and abolished local content requirements. Importantly, the reducing import duties on components and vehicles could be offset through credits earned from export of vehicles and components. This reduced the overall duty burden on OEM and some achieve ‘duty neutrality’ (Black, 2009).

The 2013 Automotive Production Development Programme (APDP) new APDP sought to shift emphasis from narrow export focus to emphasise scale in the production of vehicles. In addition, the programme is intended to support development of world-class automotive component manufacturing. The aim for South Africa is to leapfrog six countries in the current global rankings and by doubling production to 1.2 million vehicles by 2020 (Lamprecht, Rudansky-Kloppers, & Strydom, 2011).

### 2.5 Obsolescing Bargain Context: Extractive vs. Manufacturing Sector

The obsolescing bargain perspective is much less effective in service and manufacturing sectors where sunk costs are lower and much investment today is realised (Egan, 2010). Kobrin’s (1987) perspective, regarding the manufacturing sector, in developing countries is that while it is considerable agreement that the bargaining model applies to the extractive sector, the issue
is far from settled for the manufacturing sector, due to significant differences between extractive and manufacturing investment affect application of the model. Grosse (2005) contrasted the collaborative manufacturing firm’s relationship with host government to an extractive industry which primarily exports, using the ‘similarity of interests’ view. The low similarity of interests in the extractive venture results in conflictive relationship.

Although the basic assumptions of the bargaining model appear valid for both manufacturing and extractive industries, manufacturing is more heterogeneous than natural resources and the modes of HC-MNC interaction and the determinants of relative bargaining power are more complex, especially the systematic shift of power to host countries (Kobrin, 1987). A study by Bakir (2014) showed that interaction between Host States and MNCs in high-technology manufacturing changed to being cooperative from predominantly confrontational. The lack of lucidity with regard to the power shifts between MNC and HC relations, pose a significant area of enquiry.

2.6 Dynamic Cooperation in MNC – Host Country Relations

In their critique of the MNC – HC bargain power relations, Moon and Lado (2000) recommended that future research should look into the dynamic aspect of bargaining power relationship. Nebus & Rufin (2010) proposed another perspective of a broader network of relationships involving other MNCs and other key participants. In the interactions dynamics between MNC and HC, high similarity of interests between MNC and HC would yield low regulation, high incentive policies. The more similar the goals of MNC and HC, the more likely a successful bargain will result with neither side withdrawing from the relationship (Grosse, 2005).

MNC-government relations are now seen as cooperative not conflicting (Eden, Lenway, & Schuler, 2004). They proposed an update to the Obsolescing Bargain Model where relations are modelled as iterative political bargains.
negotiated between MNC and governments over a wide variety of government policies at industry level. This proposal was aligned with the Ramamurti (2001) view that MNC-HC relations are two-tier multi-party bargaining process. The first tier is between the HC and MNC’s home countries, bilaterally or through multilateral institutions, then the second tier is the original bargaining model.

The South African government’s obligations to the World Trade Organisation (WTO) led to a reduction of tariffs for the automotive industry during MIDP formation (Black & Bhanisi, 2006). With the widespread market liberalisation and pressures of globalisation, HC goals have shifted towards the achievement of international competitiveness through the development of strong home bases (Grosse & Behrman, 1992) supported by Eden, et al. (2004).

This has shifted the argument towards a view that ‘government and firms are best considered as partners in the wealth-creation process’ and the MNC – HC relations should now be viewed as cooperative rather than competitive, reflecting the shared goals of efficiency gains and international competitiveness (Dunning, 1993; 1997).

2.7 Location Decision and MNC – HC Relations

MNEs enjoy FDI investment mobility which enables them to credibly argue that they can move their investment to an alternative location (Oetzel, 2005). Unlike extractive industries, manufacturing investments tend to be smaller and more mobile and MNCs have a range of alternatives (Eden & Molot, 2002). This talks to a contrast of the MNC-HC relation between extractive and manufacturing industries, in terms of investment location and ability to move investments.

Despite that ability to move, capital investment by OEMs during the MIDP period increased significantly from R847m in 1995 to R4.7bn in 2012, a cumulative value of was R48.6bn (AIEC, 2014). The relatively small size of South Africa’s domestic market and its regional location pose clear
disadvantages in terms of attracting international investment (Black, 2009). The increasing level of investment by MNC over the MIDP period was despite the obvious disadvantages of the HC location.

The increased investments spend alluded to a HC location that remained favourable to MNC over the period. Therefore this study proposes that locational disadvantage of South Africa for automotive production shifts the relative bargain power away from the Host Country.

2.8 Investment Cycles and MNC – HC Relations

There are many theoretical papers that examine FDI issues. Among these is a 1966 Production Cycle Theory by Raymond Vernon which talks to FDI in manufacturing industry (Denisia, 2010). This theory related investment with a decision between exporting and investing, as products move through a life cycle (Faeth, 2009).

This theory aligns to the characteristic nature of the automotive industry. The automotive manufacturing industry makes large investments required for a relatively short life cycle of a product. The investment must be sufficient for the whole life cycle of the product, six to eight years, because expanding later is very expensive (Fleischmann, Ferber, & Henrich, 2006). The investment required for new vehicle production is substantial and aligned to the product life cycle, which is the new model generation.

The South African-based original equipment manufacturers (OEMs) have to compete for new model generation investments and export business against fierce competition from sister companies around the world. OEM parent companies' decisions are generally developed by cost-parity exercises to determine where to allocate export-oriented, new generation model investments (Lamprecht, Rudansky-Kloppers, & Strydom, 2011). This competition puts pressure on the local OEM to secure favourable conditions from the Host Country.
Therefore, this study proposes that major investments based on short product-cycles lead to relative bargain power shifting towards MNC.

2.9 FDI spill-overs and MNC – HC relations.

Ramamurti (2004) stated that Foreign Direct Investment (FDI) through multinational enterprises (MNEs) is the principal source of foreign capital for developing countries. Meyer (2004) stated that expectation of FDI benefit to local economy motivated many governments to offer attractive incentive packages to entice investors. Eden, et al (2004) asserted that host governments have shifted from ‘red tape’ to ‘red carpet’ treatment of foreign MNEs.

MNEs undertook FDI if and when it suits their global strategy, and where there were incentives schemes designed to attract FDI, such as tax breaks or subsidies (Meyer, 2005). The 1995 MIDP phased down import tariffs (from 115% in 1995 to 25% by 2012), abolished local content requirements and incentivised vehicle and components export by OEMs with import duty offset. This encouraged MNCs to scale production and local components for exports (Black, 2009). The results of MNC investments are highlighted on Figure 2.
Therefore this study proposes that the relative bargain power of MNC is due to FDI to spill-overs effects from component suppliers to employment and technology transfer.
2.10 Conclusion of Literature Review

The literature on the Obsolescing Bargain Theory concluded that the MNC – Host Country relations have, over the years, shifted from a conflict to cooperative nature. Grosse (2005) noted that it seems reasonable that a two-stage process of evaluating the relationship can offer more understanding than a simpler, static and narrower view. The sequential process should take into account the macro-economy as the main driver of changes in regulatory/incentive policies. He argued for initial understanding of the government’s goals and constraints, then an interpretation of specific relationship with the multinational firm.

The researcher considers this view to be critical and appropriate in the explorative nature of the investigation into the MNC – Host Country relations within the South African Automotive Industry. The contextual period of three bargain cycles of policy introductions, over the past 25 years, is aligned to the conclusions formed from the preceding literature.

The future research into the network effects of the MNC – HC relationship, identified by Moon and Lado (2000), can include key industry stakeholders like components manufacturers and organised labour, in the dynamic context of the South African Automotive Industry. This consideration was supported by Nebus & Rufin (2010) in their proposal of the Network Bargaining Power (NBP) to explain bargaining outcomes.
Chapter 3: Research Questions and Propositions

3.1 Research Question

The following research question formed the basis of this research project:

*How do Multinational Companies maintain or increase relative bargain power over the Host Country during the three bargain cycles?*

Ramamurti (2001) advocated that the traditional bargaining model of MNC – Developing Host Country relations has become obsolete, due to the relations between MNC and HC changing from predominantly adversarial and confrontational to non-adversarial and co-operative. On the other hand the Obsolescing Bargain model can be revitalised if the issue area is broadened by recognising that firms and governments engage in iterative bargaining over a wide variety of government policies at industry level (Eden & Molot, 2002).

3.2 Propositions

The following guiding propositions are considered possible answers to the research question:

3.2.1 The locational disadvantage of South Africa for automotive production shifts the relative bargain power away from the Host Country

3.2.2 The relative bargain power of MNC is due to FDI to spill-overs effects from component suppliers to employment and technology transfer.

3.2.3 Major investments based on short product-cycles lead to relative bargain power shifting towards MNC
Chapter 4: Research Methodology

4.1 Introduction

The research methodology selected was a qualitative method with single case study approach. The longitudinal time frame spanned the industry programs over twenty-five years, against the research objective to understand the bargain power relations between MNC and HC.

4.1.1 Rationale

The exploratory qualitative case study approach explored a phenomenon within its context using a variety of data sources, allowing for multiple facets of the phenomenon to be revealed and understood (Baxter & Jack, 2008). The case study approach according to Yin (2008) is the preferred method of research when asking ‘how or why’, as the investigator has little control over the events and the focus is on contemporary phenomenon within a real-life context. Eisenhardt (1989) concluded that ‘the case study is a research strategy which focusses on understanding the dynamics present within single settings’.

The single case study method was appropriate for the research to understand the bargain power dynamics in the automotive industry MNC-Host Country relationship during three bargain cycles. The single case study method explored the phenomenon over the longitudinal time frame of over two decades. The research will thus investigate the MNC-HC relations phenomenon in the context of the three industry bargain cycles, since 1989.
4.2 Research Design

4.2.1 Deductive Approach

This research tested the Obsolescing Bargain Theory within MNC-HC relations in the context of the South African automotive industry. The deductive approach defined research questions from a theory, analysed the results using the research questions - whether they support the theory and drew conclusions against the theory. This was the sequence proposed by Saunders and Lewis (2012). The deductive approach used the single case study over the three bargain cycles of the industry, and it supported the exploratory nature of the research.

4.2.2 Research Design

The case study research followed the five components of design as recommended by Yin (2003) which are
- Research Questions
- Propositions
- Unit of Analysis
- Linking Findings to Propositions
- Interpreting the Findings

The research question and propositions were highlighted on chapter three, asked how MNCs maintain or increased bargain power over the HC.

4.3 Population and Unit of Analysis

The population of this research consisted of South African automotive multinational companies (MNC). These were taken from a membership published by NAAMSA in 2014. This membership is categorised in terms of
three divisions, i.e. car/light commercial vehicle manufacturers, heavy commercial vehicle manufacturers and importers and distributors division.

This population represented the majority of the companies in the automotive industry. There has been a significant increase in foreign ownership and all automotive assemblers are now wholly owned by multinational parent firms. There has also been growing foreign ownership in the component sector, where the majority of large firms are now foreign owned (Black, 2009).

4.3.1 Unit of analysis

The unit of analysis was ‘the case’ under investigation. In this research, the ‘case’ was the relative bargain power between the MNC and HC. This formed the exploratory case study research underpinned by the research question. Therefore the main focus of research is the relative bargain power, in the context of the three bargain cycles of the South African automotive industry.

4.3.2 Process

The research process approach combined semi-structured interviews with secondary industry data that is published for triangulation. The case study research used multiple data sources, a strategy which also enhanced data credibility (Baxter & Jack, 2008). Interviews sought to gather deep insights into the MNC-HC relations from subject matter experts as well as key leaders in the industry that the researcher had privileged access to. Published data was reviewed to verify interviewee responses and this builds credibility of the data.

4.4 Purposive Sampling and Sample Size

Purposive sampling was intentionally chosen for this research to ensure that the selected sample is representative of key stakeholders in the industry. The
sample selected for the purpose of this research comprised of nine interview subjects who form part of the key stakeholders of the automotive manufacturing industry. The selected interview subjects are:-

- An executive at NAAMSA, the representative body of OEM (Original Equipment Manufacturers)
- A former executive director of NAACAM, who led the organisation during the MIDP formation, representing the component supplier industry
- An automotive policy researcher at NUMSA, the largest union representing organised labour in the automotive industry
- Two academics who have conducted research and published on automotive industry economics and national competitiveness
- Two senior managers at a German OEM which participated on all bargain cycles
- A former government Liaison Manager at the German OEM
- A senior manager at The Department of Trade and Industry (Automotive Cluster) which represents the Host Country in this research.

As this was a case study qualitative investigation, the sample above aimed to garner deep insights on the industry bargain cycles from multiple perspectives of the identified stakeholders. This stakeholder group also form the Motor Industry Development Council, the organisation where automotive industry related discussions and negotiations took place.

For the purpose of this research, the focus was on the Original Equipment Manufacturers (OEM) of passenger and light commercial vehicles due to the fact that all three industry support programs applied on these. Their manufacturing plants are wholly owned subsidiaries of the global MNC.

4.5 Data Collection and Analysis

Data was collected using semi-structured interviews with the identified industry stakeholders and other subject matter experts. In a semi-structured interview the researcher had a list of discussion topics to be covered and questions to be
asked. The order in which the questions would be asked varied between interviews depending on the responses form the participant (Saunders & Lewis, 2012). The interview guide used is found on Appendix 2.

There were ten interview subjects, with the first subject used as a pilot test interview. The pilot test exercise is highly recommended for semi-structured interviews to ensure that questions are easily understood and highlight any potential problems that could potentially arise during the actual interviews with the participants (Saunders & Lewis, 2012). The pilot test interview was used to refine the order of questions, test the language and possible feedback in preparation for the nine actual interviews.

The interview subjects were very generous with their time and they provided candid insights with each interview going well over one hour. The interviews were audio-recorded, with full consent from the respondents. The identity and responses of the interviewees were treated with full confidentiality as stated explicitly during the request for interview. The interview audio recordings were transcribed by utilising the services of service providers and transcripts were on average twelve pages long.

The analysis of qualitative data was conducted using a coding method to glean out a well-constructed analysis of results findings.

### 4.6 Validity and Reliability

Validity of qualitative research talks to a consistent and stable research. This is the extent to which the data collection method accurately measure what it intended to measure and the research findings are about what they claim to be (Saunders & Lewis, 2012). If qualitative studies cannot consistently produce valid results, then policies, programs, or predictions based on these studies cannot be relied on (Maxwell, 1992). Reliability of this research would produce the same results even if it was conducted by another researcher, on other occasions, employing data collection methods and analysis that produce
consistent findings, and the reader can see clearly how the conclusion was reached (Saunders & Lewis, 2012).

For this research, the nine interviewees represented the core stakeholder group of the South African automotive industry as well as leading academics who are well involved in the industry. The nine respondents could have been replaced by other colleagues in their organisations, but the researcher targeted persons who hold senior persons in their respective organisations while being relevant for the purpose of this research. Alternative interview subjects could have been the Chief Executive Officers of respective organisations but these interviews proved difficult to secure within the time-frame due their busy schedules. Perspectives of industry cluster groups (e.g. NAAMSA and NAACAM) provided a wider industry view than interviewing all seven NAAMSA OEMs or individual component manufacturing organisations. NAACAM has 140 members! The qualitative research deemed it appropriate to follow this route and gather deep insights from interviews instead of a limited interview questionnaire.

Saturation and similar responses from different interview subjects was reached after the fifth interview. This gave the researcher the confidence regarding consistency of questions posed to the respondents. That being said negative cases were not ignored but considered for rigorous review. This is a long established tactic to improve the quality of explanations in the qualitative research; by seeking and discussing the elements that seemed to counter or contradict emerging explanation (Mays & Pope, 2000).

Lastly, the external validity of this research would be how generalisable it is to other research context (Saunders & Lewis, 2012). If this research can be extended to another industry or market with similar context, then it would be externally valid.
4.7 Research Limitations

Critics of the case study research method cite that one case, or even a small number of cases, is no basis for placing faith in the findings (Saunders & Lewis, 2012).

The following potential limitations have been identified, as they could have an impact on the overall research:

1. The researcher’s potential bias due to his employment in the automotive industry could impact the interpretation of results. To mitigate this bias, the process of triangulation by external data was utilised.

2. Access to some automotive MNC due to their concerns about the researcher’s employment in a competing MNC within the same industry. This was mitigated by shifting the focus of interview subjects from individual MNC to industry association level (NAAMSA).

3. The representative size of the sample for the Automotive Industry population.

4. The scope of the research in automotive MNC was limited to NAAMSA Original Equipment Manufacturers (OEM) and not primarily components manufacturers. This was due to the nature of HC automotive industry programs that primarily engage with the OEM. That being said, component manufacturers (NAACAM) and organised labour (NUMSA) were engaged to provide additional insights for a more balanced perspective on MNC-HC relations.

5. Historical context of the 25 year long research timeline had impact on some respondents, as they were not directly involved in the industry at that time. This limitation was mitigated by reference to published data on the industry.
Chapter 5: Results

5.1 Introduction
This chapter discusses the findings from interviews conducted, together with a review of published data on the industry. Semi-structured interviews were conducted with nine respondents who are key role players in the South African automotive industry landscape. The interview guide used to form the line of questioning is attached as Appendix 2.

In addition to the interviews, published industry data was reviewed to triangulate some of the statements made by the interview subjects as well as to confirm data where the subject was uncertain. Finally, the data was utilised to confirm historical data, in cases where the interview respondent was not involved in the industry and did not have insight on a specific topic under discussion.

5.2 Profile of Respondents
A total of ten respondents were interviewed for this research. The first interview subject was used as a pilot interview in preparation for the remaining interview subjects. The selection of respondents was defined to ensure coverage of the breadth and scope of the South African Automotive Manufacturing Industry. Thus, the key stakeholders in this sector were identified and approached for their insights to this research.

Due to the competitive nature of the industry, some individual MNCs declined the interview requests, possibly due to the fact that the researcher is employed by one of the large automotive MNC. To mitigate this limitation, the researcher interviewed the Executive Manager of the Automotive Manufacturers Association, NAAMSA. He provided the broad automotive industry perspective without revealing competitive and sensitive details of specific OEMs. The complete profile of the respondents is outlined in the Table 1. Their identity of the respondents was kept confidential and was not matched to specific responses discussed in this chapter.
# Table 1: Profile of Respondents

<table>
<thead>
<tr>
<th>RESPONDENT’S POSITION</th>
<th>ORGANISATION</th>
<th>RELEVANCE TO THE RESEARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor: Economics</td>
<td>School of Economics, University of Cape Town</td>
<td>Published Researcher on International trade, Foreign Investment, Industrial development, especially the Automotive Industry; Served as Consultant on MIDP process</td>
</tr>
<tr>
<td>Former Manager: Government Liaison</td>
<td>(Formerly with) Mercedes-Benz South Africa Limited</td>
<td>Previous role was key liaison for MBSA with the DTI and NAAMSA</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>Mercedes-Benz South Africa Limited</td>
<td>Over 25 year experience in the organisation, in Components Procurement and Exports</td>
</tr>
<tr>
<td>Chief Director: Automotive</td>
<td>The Department of Trade and Industry (DTI)</td>
<td>The DTI represents the Host Country, South Africa, in defining and implementing Policy</td>
</tr>
<tr>
<td>Past Executive Director</td>
<td>(Formerly with) National Association of Component Manufacturers (NAACAM)</td>
<td>NAACAM represents components suppliers as key stakeholders in the Automotive Industry</td>
</tr>
<tr>
<td>Executive Manager</td>
<td>National Association of Automobile Manufacturers in South Africa (NAAMSA)</td>
<td>NAAMSA is the official member body of all seven (7) automotive OEM (original</td>
</tr>
<tr>
<td>RESPONDENT’S POSITION</td>
<td>ORGANISATION</td>
<td>RELEVANCE TO THE RESEARCH</td>
</tr>
<tr>
<td>-----------------------</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>equipment manufacturers) as well as major importers and distributors of new vehicles in South Africa. NAAMSA represents OEMs meeting the Department of Trade &amp; Industry</td>
</tr>
<tr>
<td>Senior Lecturer</td>
<td>Gordon Institute of Business Science University of Pretoria</td>
<td>Lectures Corporate Strategy, National Competitiveness and Economic Development</td>
</tr>
<tr>
<td>National Researcher</td>
<td>Policy Research Unit National Union of Metalworkers (NUMSA)</td>
<td>NUMSA is the largest Trade Union for Organised Labour in the Automotive Industry; a key stakeholder in MIDC</td>
</tr>
<tr>
<td>Executive Director / VP</td>
<td>Sales &amp; Marketing Mercedes-Benz South Africa Limited</td>
<td>Senior Manager in the organisation; provides an organisation leadership view on the research discussion</td>
</tr>
</tbody>
</table>
5.3 The Content Analysis of the Three Bargain Cycles

For the benefit of the reader and to help with understanding some of the themes that emerged from the findings, the content analysis of the three bargain cycles was created, based on preliminary discussions with the interview respondents. Table 2 below provided clarity on the longitudinal contextual background under which the bargain power relations between MNC and HC were explored during the research. The bargain cycles were the three automotive support programs, as follows:

Phase VI of the Local Content Program (hereafter referred to as Phase VI), in place from 1989 – 1995, is the first cycle under investigation. It was the last phase in a series of automotive industry interventions which commenced in 1961, designed for a closed and import-substituting market. The rationale for Phase VI was to introduce manufacturing of high value components and changed from prior Phase V directive of 50% local content based on weight of vehicle! It also encouraged growth into the export markets by incentivising components exported. Import duties remained significantly high with levels up to 115%, which ensured that vehicles were produced for local market consumption, with very limited levels of imports.

The timeline of Phase VI coincided with significant changes in the South African economic and political landscape with a new regime in Government from 1994. At the same time the host country’s relationship with the international community changed with membership to the World Trade Organisation (WTO).

The need to protect the automotive industry that was significant to the economy formed the basis of the creation of the second cycle, the MIDP, which was introduced in September 1995 with specific goals to:
- Improve the South African automotive industry competitiveness globally
- Improve domestic market vehicle affordability by reducing import duties
- Encourage growth of manufacturing through exports of components and vehicles
- Stabilise employment levels in the industry, and;
- Create better trade balance through exports of vehicles and components

To achieve the above goals, trade liberalisation was initiated and the market was open to global sourcing. The program incentivised exports of vehicles and components by granting OEMs credits to offset the (now reducing) import duties on imported vehicles. With MIDP local content prescription was abolished and there were no minimum volumes required. The thinking was that the incentive for OEM to reduce the import duty burden would incentivise increased production volumes. Import duties were sharply reduced from 115% in 1994 down to 25% in 2012 until today. There was an additional 7% preferential rate for the EU-sourced vehicles. This reduction was influenced by membership to the WTO. The removal of prescribed levels of local content would come to affect the local component supplier industry during the first few years of the MIDP as we shall see later.

The industry production volumes doubled from 300,000 units under Phase VI to 600,000 units per year during MIDP, with over 50% of produced vehicles destined for export markets. The components exports also grew significantly in tandem with these increased volumes. Fully imported vehicles increased from very low levels (less than 5%) up to 60% of total sales during the MIDP period, with no small thanks to the import duty offset incentives as part of MIDP.

The incentives provided to the components exports industry attracted a challenge against the MIDP by the Australia government at the World Trade Organisation (WTO). This led to the development of the third cycle, the Automotive Production Development Program (APDP), which was introduced in January 2013. APDP was defined with production incentives, irrespective of whether production was for local markets or exports. To qualify for the incentive, the OEM Plant had to achieve a minimum 50,000 units per year – compared to no prescribed volumes during the MIDP.

Furthermore, APDP had an ambitious objective of producing 1.2 million vehicles by year 2020, from the MIDP peak of 600,000 units per year. Lastly the APDP aimed to deepen and broaden local supplier industry, in order to stimulate increased levels of employment absorption.
Table 2: Content Analysis of the Three Bargain Cycles

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic Conditions</td>
<td>Closed, isolated market; Import substitution; Political/economic instability</td>
<td>Trade Liberalisation; Global sourcing begins</td>
<td>Global competition for automotive production</td>
</tr>
<tr>
<td>Program Rationale</td>
<td>Initiate Component Exports and High value manufacturing</td>
<td>Growth from vehicle and components</td>
<td>WTO challenge by Australia;</td>
</tr>
<tr>
<td>Program Objectives</td>
<td>Access export markets</td>
<td>Increase SA automotive industry global competitiveness</td>
<td>Increased vehicle production volumes and Deepen local supplier industry</td>
</tr>
<tr>
<td>Production Conditions</td>
<td>Vehicles produced for local market only; Components exports initialised</td>
<td>No prescribed volume requirement; Incentives based on exports of vehicles and components; OEM earn export credits to offset import duties</td>
<td>Minimum 50,000 units per annum per Plant to qualify for duty offset credits</td>
</tr>
<tr>
<td>Vehicles Produced</td>
<td>Up to 300,000 units</td>
<td>Up to 600,000 units</td>
<td>1.2 million units by 2020</td>
</tr>
<tr>
<td>Imported vehicles (% of total)</td>
<td>Negligible</td>
<td>Grew from 5% up to 60% in 2012</td>
<td>Maintained level around 60%</td>
</tr>
<tr>
<td>Import Duties</td>
<td>Up to 115%</td>
<td>Reduced from 115% to 25% by 2012</td>
<td>Remained at 25%; Consideration to increase</td>
</tr>
<tr>
<td>Local Content Required</td>
<td>Minimum 50% required Measured by Value (not Weight of Phase V)</td>
<td>None prescribed; voluntary per MNC; driven by incentive</td>
<td>None prescribed; Driven by incentives to be earned</td>
</tr>
</tbody>
</table>
5.4 The Research Question and Guiding Propositions

The research question and propositions discussed on chapters one and three formed the basis of the questions posed to the interview respondents as well as the findings of this research. The research question was \textit{how do the automotive MNCs maintain or increase their relative bargain power over the Host Country during the three bargain cycles?}

Three propositions were put forward as possible answers to the research question above and these spoke to, firstly, the locational disadvantage of the Host Country and, secondly, the various spill-overs of MNC investments, in terms of component supplier industry development, employment provision and technology transfer. The third proposition was that major automotive industry investments were based on short (seven year) product-cycles and this led to relative bargain power shifting towards MNC.

5.4.1 Proposition 1

The locational disadvantage of South Africa shifts the bargain power away from Host Country.

The themes (\textbf{in bold}) that were derived from the interview data with regard to the bargain power relations, over three cycles, are presented below:


During the MIDP negotiations, the Host Country was \textbf{vulnerable} to powerful MNCs during the program development. It appeared that the MNCs took full advantage of the \textbf{vulnerable position} of the HC during the \textbf{transition phase} and return to international community. Respondent 10 put this succinctly: \textit{“I think the state was a bit too lenient or too eager to please business. We were vulnerable and also our global position and our political situation put us bit of a back foot hence we found ourselves in the position that we are in.”} This was
supported by Respondent 8 who stated, “During the time of the conception of MIDC (Motor Industry Development Council of 1992) there was a lot of lobbying from the OEMs in various ways engaging government. The fragility of the South African (political) situation, in terms of power relations, had created a situation where the incentive was structured in favour of the OEMs…”

It appeared that during the transition period between the first to second bargain cycles, which coincided with the greater political and economic transition, left the HC vulnerable to a higher MNC bargain power position. This vulnerable state affected the HC bargain power as a location for MNC investment. The HC was affected by external factors and was lenient to MNC.

For the same period, respondents also indicated that distance to markets is one of the locational disadvantages for the HC. Respondent 8 highlighted that“…one of the disadvantages we have in South Africa is that we are very far from global markets - we are in the South”. Furthermore it was noted that the size of the market is an important factor in terms of location attractiveness to potential MNC investors. Respondent 5 said, “Our local market is 0.6% (of the world). The whole idea of doubling the vehicle production under the APDP is to maintain a market and to increase a market share of around 1% otherwise we would not be considered for any investment.”

This showed that the bargain power in the first and second cycles leaned more towards MNCs as distance to markets and domestic market size was not in the HC’s favour.

**Cycle 2 and 3: MIDP (1995 - 2012) and APDP (2013 – date)**

Respondent 2 recalled, prior to MIDP, one MNC that emphasised its size (compared to Host Country) and had alternative locations to choose from saying: “A large American multinational gave a presentation and pointed out their global sales were larger than South Africa’s GD. It wasn’t really subtle. Basically they were pointing out that they also had plants in 20 or 30 countries.
in the world, so South Africa was a small player.” The Respondent continued, “I have done a bit of research on comparing Thailand with South Africa and Thailand has got many cost advantages which is why Japanese companies have set up as a hub.”

This alluded to a continued presence of alternative and better production locations for MNCs to choose from, instead of the HC. This prevailing alternative for the MNC does not shift the bargain power towards the HC during any of the bargain cycles.

Despite obvious locational disadvantages that emerged above, the success of MIDP program improved location attractiveness of the HC. Respondent 9 noted that, “MIDP has made South Africa a potential producer of vehicles for export markets, totally contradictory to our geographical location and far from major markets”. In addition Respondent 3 mentioned that, “With the APDP, there is evidence of increasing investment in production facilities, including the 2012 BAW Plant and the recently announced multi-product facility by Hyundai.”

From the continued investment inflow from automotive MNC to setup production it can be inferred that the program success was a good outcome for the HC to attract incremental FDI in future.

On the location topic, most respondents made additional comments that the HC was in good position to serve the growing African market. Further, the current growth of the African market growth gives South Africa an advantageous position to be the gateway to the African continent. This was also confirmed by Nissan’s Vice-President for Africa, Middle East and India in an interview with the SABC News that their organisation growth strategy intended to use their South African base for growth into Africa (News, 2014).
Summary on proposition 1

The HC’s vulnerable position to the political and economic transition, during the first to second cycle transition period, created locational disadvantage that shifted the bargain power from HC to MNC. Further, the weak bargain of HC was due to the relatively small size of domestic market and location of production plants that are significantly away from major automotive markets of Europe, North America and East Asia. This shifted and sustained the relative bargain power towards MNCs over the three bargain cycles.

Therefore, based on the data presented, Proposition 1 is supported: the locational disadvantage of HC shifted the relative bargain power away from HC towards the MNCs.

5.4.2 Proposition 2

The relative bargain power of MNC is due to FDI to spill-overs effects from component suppliers to employment and technology transfer.

For this proposition, the first two cycles will be discussed in parallel based on the three themes which are component industry, employment and technology transfer. This is due to the limited levels of MNC investment during Phase VI.

Component industry

This proposition straddled across the second cycle, MIDP, as the majority of investment growth was realised during this period. Moreover, MNC influence on the component supplier industry had a significant secondary effect on HC’s bargain position. The increased OEM investment led to components supplier industry development. Respondent 5 stated that, “When an OEM invests, it’s a follow strategy by the component companies. Under the MIDP; eight of the global top ten MNC component suppliers are setup in South Africa.” Respondent 3 supported as follows, “(MIDP) made South Africa specialize in
certain components whereby it made those components on a massive scale to benefit from economies of scale from OEM.”

Respondent #10 was equally buoyant: “We have developed other industries that we really didn’t have. For instance catalytic convertors, as some stage we were responsible up to 14% of the global market; it grew on the back of the structure of the MIDP.” Respondent 5 was even more emphatic, “…some people thought that “becoming part of the global market, cutting the tariffs from 115% to 25% where we’d end up with half of the component companies would close down…none of that happened!”

It was clear that the success of MIDP brought with it investment by OEMs and the spill-over was additional growth and development in the overall component supplier industry. When the questions went a bit deeper for details, the following themes emerged:

The spill-over effects of supplier industry development included an eventual increase in employment levels from the components industry. Respondent 9 stated that: “If you look at the employment in the component manufacture went down in the first 5 years of MIDP in 1995 till 2000 after they have stabilized and start to grow again slowly.”

Not all respondents sung praises though. There was some significant negative impact on the local component supplier industry as a result of the MIDP. Respondent 8 clarified this impact as follows: “(import) tariffs were liberalized and that had a huge impact on the components more than the OEMs in the sense that it wiped out South African components (local industry), as it opened (the market) for foreign (components) companies to come in…”

Probing further revealed that the assertion that local components suppliers were ‘wiped out’ was due to the strong influence from OEM MNCs. They dictated to local suppliers to partner or JV with MNC components companies or those from their home country. Respondent 5 explained this requirement:
“Since we (auto industry) were part of the global network it increasingly became a requirement for component companies to become part of the multinational or they wouldn’t be able to supply, you know its global sourcing principles.” Respondent 5 continued as follows: “You can’t supply an OEM as a pure local company; the product design is taking place overseas; the component company is a technology taker. By and large, if the component company is not part of a multinational you cannot supply the OEM.”

The bargain power of MNC, through FDI, over the components industry (and by extension over the HC) led to increased influence on components sourcing and ownership decisions. It appeared that the relative bargain power remained with the MNC as a consequence of MNC investment spill-over effect. Respondent 9 also confirmed this assertion, “Until 1995 it was acceptable to have a technology agreement with a foreign company. During MIDP many of the OEMs went to Tier-1 suppliers and said a technology agreement (with overseas supplier) isn’t enough anymore. We want you to talk to the company you have license with and get them to take some ownership in South Africa otherwise we can’t guarantee that we will give the contract for the next model, because we want multi-national involvement here.”

This was clearly bargain power coercion by the OEM over the industry (upstream) supply chain which had an impact on the local component suppliers. The HC could not (or chose not to) do anything about it. The inaction by HC confirmed the bargain power that had remained with MNCs through FDI.

The MIDP incentivised OEMs only for export of vehicles and components, without prescribed levels of local content on vehicles manufactured. This led to a skewed focus of sourced components towards catalytic converters and leather seats. Respondent #7 explained, “the two big areas at least under MIDP where the real money was made: one is catalytic convertors and the second was leather seat covers.” This was supported by Respondent #9 who stated that, “the value of components exported it looks like massive growth but more than half of it is catalytic converters and some leather seats. It is not broad.”
The OEM industry’s focus on mainly two components’ development and exports had an adverse effect on other local components output, and this entrenched the MNCs relative bargain power over the industry and, by extension, the HC.

Moving on to APDP, the HC focus shifted onto local components and employment. Respondent #5: “to grow the industry you need to grow your South African companies that are normally the lower tier suppliers. That is the big focus of the APDP: to broaden and deepen the supply base.”

**Employment**

Employment was always a topical issue at all bargain cycles. During Phase VI, additional employment was not created because of the multi-platform uneconomic production. Respondent 8 explained, “Part of the problem around not creating jobs was the fact that you had a lot of platforms and these platforms were not leading to a situation where you could maximize your economies of scale” Employment was an even bigger topic of discussion during the second bargain cycle to define the MIDP. Respondent 9 gave this insight, “There was a big debate before the MIDP: the DTI wanted to (stipulate) employment growth. Industry showed that it is likely that OEMs will keep producing more and more with the same number of people, BUT if we never had the MIDP as we globalised, we would lose employment. We would avoid losing employment: the DTI swallowed that”

The **OEM’s view on employment** creation was clarified by Respondent #8, “What MIDP was about in OEM’s view, was just to maintain the levels of employment. There was no employment lost (except the Global Financial Crisis period) and there was not employment gained.”

The **Host Country perspective** was explained by Respondent 10: “Our incentives, they say you must invest so much and then we will give you so much. They don’t say employ so many people and we pay you so much”
Despite the ‘agreement’ to ‘maintain employment’, the early phases of MIDP resulted in a shock. Respondent 9 further clarified that “Employment in the component manufacture went down in the first 5 years of MIDP in 1995 till 2000 after they have stabilized and start to grow again slowly.” In support, Respondent 10 concurred as follows, “Employment in real terms, in actual heads employed - there has not been any growth over time;; while there was growth in terms of export trade, there wasn’t in terms of employment.”

The relative bargain power position of MNC was alluded to by Respondent 4: “the way that the industry has developed from 1995 to now: The government was of the opinion that the Industry didn’t play the game as they intended. The DTI obviously they want job creation in South Africa.”

This showed that the bargain power remained with MNC even with reduced levels of employment against the ‘agreed’ stable employment.

For the third cycle, APDP, the HC made it explicitly clear that employment growth and local supplier industry development were a focus area: Respondent 5 said, “Under the APDP the intention is to increase employment with the increase in production and so on so there is a different focus.” Respondent 3 added, “we will see how APDP policy elements will further strengthen the component industry. There are policy changes in APDP from MIDP which hold promise that will be able to improve the portfolio of components made locally.”

The apparent change of policy stance supported the premises of the obsolescing bargain theory in that the HC deemed it proper, during the third cycle to review the gains made by the MNCs over the previous cycles. However the transfer of technology which was presumed to be a possible spill-over effect of the MNC investment was not evident from any of the respondents.
Summary on Proposition 2

It was clear that the relative bargain power of MNC OEMs, over Components Manufacturers (and, by extension, the Host Country), was due to MNCs FDI spill-over effects. This was also evident during the industry engagements forums (MIDC). As one respondent put it in not so subtle terms:

“Our engagements with the components industry are such that we agree on a number of things: around increasing tariffs to protect the components sector; shifting the support in favour of the components to benefit all, hence we can create more jobs, etc. But the difficulty is when you go to MIDC with an agreement with Naacam. At MIDC they (Naamsa & Naacam) meet before the meeting and listen to what components position is and Naamsa may tell them it’s a s**t idea and you may not do it or you will lose your contract.”

Another respondent even went further to state that, “Some of the OEMs had to promise/give them export volume and additional volume business in Europe – some taken away from another supplier as a pre-condition to come to South Africa.” The OEMs brought new overseas suppliers to the country with new models. This was confirmed by a respondent from a large German OEM which “brought ten new suppliers with the latest generation vehicle model”. This decision was attributed to the “new technologies in the new vehicle that none of the local component suppliers could provide to the OEM.”

Therefore based on the data gather, proposition 2 is supported on the notion that the MNC FDI spill-over effects in the components industry, continue to shift the relative bargain power away from the HC to MNC.

5.4.3 Proposition 3

Major Investments Based on Product-cycles led to Relative Bargain Power Shifting towards MNC
The automotive production industry short product life-cycle investment planning did impact the bargain cycles. Respondent 7 clarified, “The automotive industry runs in cycles and the product cycle is about 7 years. At the end of the cycle you sit again with an investment decision – do I reinvest in South Africa?” This end of investment cycle created a new bargain cycle between the MNC and HC in terms of future investment decisions. Respondent 2 explained, “I think when the negotiations come up for a new model it is almost like making a new investment because of the big investment required...because the new model is in fact a new negotiation”. This appeared to counter the obsolescing bargain model, as Respondent 2 continued, “Once a Plant is built there will be some shift in bargaining power (to HC) but I think there is always a question of building new models.”

The question of new investment with new models shifted the bargain power back to the MNC as it is a significant investment. Respondent 7 alluded: “While it is expensive to move out of South Africa and it’s cheaper to reinvest in South Africa than to go to Brazil but it’s not quite the same as mining because there you need a lot of new investments anyway after 7 years.” The MNC’s central power was evident in this phase as investment decisions were made. Respondent 5 discussed this point as a Business Case issue: “The global (product) cycles deem that when the head office introduces a new model, it’s no question to them and the country, host country, requirements, etc. They still look at the cost-parity exercise, business case, and so on.”

This situation created continuous uncertainty pressure on HC and the value chain, as the product life-cycles do not run at the same times across OEMs: Respondent 8 explained, “That product cycle has a huge impact. Government is forced to do certain things because it’s not certain. You have pressure from the trade unions who want to maintain jobs. We have pressure from (subsidiary) OEM’s who say there is no guarantee, themselves are still engaging with the mother plant. The components also do not have a guarantee in terms of supplying.”
The components suppliers were also as affected, in more than one way, by the short investment cycles, as Respondent 9 explained, “OEMs would manage their business model cycle by model cycle. So the next time OEM is planning his next model, he’s looking at during the course of MIDP you could see that some of them reduced the local content cause they had a lot of export vehicles through which they were earning a lot of credits”

Summary on proposition 3

The investment period led by product life-cycle is one of the key characteristics that set the automotive manufacturing industry apart from extractive and natural resource industries, in terms of bargain relations. New products generally require a significant level of new plant investment, every seven years or so. OEM then review current location benefits and decide whether to continue to invest at current location or move the production elsewhere, based on the business case.

The threat of a possible relocation of the production facility maintains or increases the relative bargain power of MNC as the HC is continually uncertain about the future plans of the MNC. This also affects the component supplier industry’s certainty of future prospects, as the MNC decision impacts both HC and component suppliers.

This proposition was also linked with the locational disadvantage proposition. As one respondent put it succinctly, "one of the reasons why the automotive industry can continue to hold the South African government to ransom because every so often they are in a position where they can up and leave. For the last 7 years you have been supporting that investment so heavily anyway the cost (to leave) to the multinational is not so high.”

Therefore, the proposition that major investments based on product-cycles led to relative bargain power shifting towards MNCs does hold true in this case.
5.7 Emerging Themes

Beyond the findings guided by the propositions above, the following themes emerged from various interview subjects as additional insights into the MNC – HC bargain power relations.

Ownership levels at OEMs led to increased investment. Respondent 5 stated: “German companies were first is to reap the (MIDP) benefits because they were 100% foreign owned (then) and so the parent companies were more comfortable to invest in 100% subsidiaries. Toyota, for example, in 2006 sold off South African equity state to Japan then they doubled vehicle production from 122,000 to 220,000 in capacity.”

The bargain process is a collaborative process based on shared goals between MNC and HC. The significance of the industry’s success to the macro-economy led to this co-operative bargain process: Respondent 5, once again, clarified: Government is very focused on the automotive sector to be successful…it is a joint effort to come up with these programs…we sat in 1995: government industry and labour we have established MIDC which consist of government, industry and labour and all the stakeholders and it was a smaller NEDLAC.”.

This was supported by Respondent #8 who stated that: “Motor Industry Development Council (MIDC): there is NAAMSA that is representing the industry. There is NAACAM which represents components; there is RMI which represents retailers; there is CCA which represents tyres manufacturers; the Medium and Heavy commercial vehicles which falls both under NAACAM and under NAAMSA. There is the Union (Numsa) and the DTI which is the Chair and includes ITAC, SARS, Automotive Directorate and Trade Division of DTI”

Resp. #7: “during the period of the pre-MIDP period there was a high level of consensus of what needs to happen. We had a common problem but we also
at that stage had what I would call an active discussion of the industry policy. We had the motor industry development council”.

5.6 Conclusion

The findings from the interview respondents, as supported by published industry data gave us the following key insights, with regards to the relative bargain power between the Multinational Companies and the Host Country.

Context plays an important role in the formation of each of the three bargain cycles in this research. Phase VI was the starting point of the South African economy reaching out to export markets, in the form of components. The MIDP took this growth ideal even further by incentivising exports of vehicles and components with import duty offsets. At the same time, the import tariffs were slashed in compliance with WTO and other vulnerabilities. After a WTO complaint from Australia, the APDP was introduced in 2013 with an even bigger goal to double production to 1.2 million units by 2020 and promote employment through deeper and broader local components supply base.

Locational disadvantage maintained the relative bargain power with the MNC due to relative size of domestic market and the distance of South Africa as a production location from the major markets in the northern hemisphere. Notwithstanding that disadvantage, the success of MIDP, against objectives, resulted with increased investments and other MNC feasibility studies.

FDI spill-over effects to components suppliers; employment and technology transfer led to arrival of MNC component suppliers, brought by the MNC OEM and this affected the local suppliers. The components industry was further affected as the OEMs focused mainly on catalytic converters and leather seats. This was to the detriment of other components, and their suppliers as OEMs reviewed procurement after achieving duty neutral state from vehicle and component exports.
The effect of the short-cycle nature differentiates automotive manufacturing from extractive industries. The investment required during every seven year product cycle provides the OEM with an opportunity to review current location, which reduces the relative bargain power of HC due to uncertainty.

5.8 Limitations

The number of respondents from the different stakeholder groups could lead to response bias from their personal views that do not necessarily represent the entire stakeholder view on a particular issue. This was partly mitigated by triangulation of various responses publicly available information. In the same manner the fact the span of research dates back 25 years, most respondents were not part of the automotive industry at that time or were not in the same role as they are today, which affects the level of insights into particular cycles. This was also mitigated by ‘fact-checking’ against public data and other external published sources to ensure validity of insights.
Chapter 6: Discussion of Results

6.1 Introduction

The previous chapter provided the findings from the respondents' interviews combined with secondary data for triangulation. This chapter takes the research to the next level by discussing the results alongside the literature reviewed in Chapter 2.

The discussion of results followed the thematic approach of the research question and the guiding propositions outlined in Chapter 3, to ensure a clear discussion and for the benefit of the reader. The emerging themes at the end of the previous chapter will be incorporated in the discussion for a richer overall perspective.

6.2 The Research Question and Propositions

This research aims to answer the following research question:

*RQ*: *How do Multi-National Companies maintain or increase relative bargain power over the Host Country during the three bargain cycles?*

The research question enabled the researcher to explore the automotive industry power relations between MNC and HC, over the past 25 years based on three propositions. The propositions were put forward as possible answers for the research question and used in the formulation of the interview question guide for the nine interview subjects. Results findings were detailed in the previous chapter following a thematic logic. The discussion of results on this chapter followed the same thematic approach, against the literature review. This completed the research picture as the relationship between chapters two, three and five culminated to form this discussion of results.
6.2.1 Proposition 1

The locational disadvantage of South Africa for automotive production shifts the relative bargain power away from the Host Country

From the first cycle, Phase VI, the findings spoke to a bargain power shifting away from the Host Country due to its vulnerable position from the political and economic transition. MNCs appeared to take full advantage of this vulnerable position and shifted the bargain power in their favour. Literature indicated that MNCs enjoy FDI investment mobility which enables them to credibly argue that they can move their investment to an alternative location (Oetzel, 2005).

The sources of MNC bargaining power discovered from the data are:

- Vulnerable position of the HC
- Distance to markets
- Size of the markets
- Locational attractiveness

Vulnerable Position

It appeared that the MNCs took full advantage of the vulnerable position of the HC during the transition phase and return to international community. In a seemingly desperate attempt to attract investment that could easily move to alternative locations, the state was a bit too lenient or too eager to please business. The HC was vulnerable due to the transitional political situation. Another responded was quoted saying the MNCs took advantage of the fragile political and economic condition of the HC.

Location attractiveness/distance to markets

The location of an investment differentiated manufacturing industry from geography-specific extractive industries. Eden and Molot (2002) stated that unlike extractive industries, MNCs in manufacturing investments have a range of alternatives. This finding was supported by the evidence from literature. The range of alternatives available to manufacturing MNC shifted the bargain power position away from the HC. Even during the first cycle towards MIDP, the MNCs
bargain power was evident. A certain multinational explicitly pointed out, in not so subtle terms, that its global sales were larger than South Africa’s GDP. They also emphasised that they also had plants in 20 or 30 countries in the world and South Africa was a small player.

By virtue of having a choice to invest anywhere in the world, the relative bargain power of the HC is much lesser than the MNCs. From the findings, comparing Thailand with South Africa showed that Thailand has got many cost advantages which is why Japanese companies have set up as a hub there.

**Size of the market**

Over and above the alternatives for the MNC, the weak bargain of HC was also due to the relatively small size of domestic market and location of production plants that are significantly away from major automotive markets on the northern hemisphere.

The literature informed that the relatively small size of South Africa’s domestic market and its regional location pose clear disadvantages in terms of attracting international investment (Black, 2009). This shifted and sustained the relative bargain power towards MNCs over the three bargain cycles. From the findings, one respondent confirmed this disadvantage due to distance from major markets.

Another respondent stated that the size of the market is an important factor in terms of location attractiveness to potential MNC investors. The local market was a meagre 0.6% of the world and needed to double vehicle production, under the APDP, to increase to a market share of at least 1% to be considered for any investment. That is the rationale behind the target of 1.2 million units by 2020.

Therefore, based on the data and literature reviewed, Proposition 1 was found to be correct. The locational disadvantage of Host Country did shift the relative bargain power away from HC towards the MNCs.
Despite obvious locational disadvantages that emerged above, the success of MIDP program improved location attractiveness of the HC. One respondent noted that the success of MIDP has made South Africa a potential producer of vehicles for export market. The location attractiveness is contradictory to the geographical location far from major markets. There is even increasing investment in production facilities, including the 2012 investment of a manufacturing plant by BAW (Beijing Automotive Works). Recently, Hyundai announced an investment into a multi-product facility.

The continued investment inflow from automotive MNC to setup production it can be inferred that the program success was a good outcome for the HC to attract incremental FDI in future. This was a continuing trend, from the pre-1995 levels of a closed market. Capital investment by OEMs during the MIDP period increased significantly from R847m in 1995 to R4.7bn in 2012, a cumulative value of was R48.6bn (AIEC, 2014). The increased investments spend alluded to a HC location that remained favourable to MNC over the period.

While the proposition and some evidence from the findings point to a clear disadvantage of the HC as a location and market size, the increasing MNC investment spend presents an alternative viewpoint. Meyer (2005) stated that MNEs undertook FDI if and when it suits their global strategy, and where there were incentives schemes designed to attract FDI, such as tax breaks or subsidies. The evidence of increasing FDI implied that the industry programs were attractive to continuous investment despite the location disadvantage of market size and distance. Therefore, while the proposition held true that the location disadvantage shifted bargain power to the MNC, the HC programs continued to attract increasing MNC investment.

6.2.2 Proposition 2

The relative bargain power of MNC is due to FDI to spill-overs effects from component suppliers to employment and technology transfer.
The growth of investment into vehicle production brought with the growth of the components supplier industry. The OEM investments are highlighted on Figure 2 below. This study proposed that the relative bargain power of MNC was due to FDI to spill-overs effects from component suppliers to employment and technology transfer.

Figure 3: Investment Spill-over on the Automotive Industry

<table>
<thead>
<tr>
<th>Activity</th>
<th>1995</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditure by the OEMs</td>
<td>R847 million</td>
<td>R4.7 billion</td>
</tr>
<tr>
<td>Export value (vehicles and components)</td>
<td>R4.2 billion</td>
<td>R86.9 billion</td>
</tr>
<tr>
<td>Total vehicles exported (units)</td>
<td>15 764</td>
<td>277 893</td>
</tr>
<tr>
<td>Top vehicle export destinations</td>
<td>1. China</td>
<td>1. USA</td>
</tr>
<tr>
<td></td>
<td>2. Zimbabwe</td>
<td>2. UK</td>
</tr>
<tr>
<td></td>
<td>3. Malawi</td>
<td>3. Algeria</td>
</tr>
<tr>
<td>Top automotive components exported</td>
<td>1. Stitched leather seat parts</td>
<td>1. Catalytic converters</td>
</tr>
<tr>
<td></td>
<td>2. Catalytic converters</td>
<td>2. Engine parts</td>
</tr>
<tr>
<td></td>
<td>3. Tyres</td>
<td>3. Silencers/ exhaust pipes</td>
</tr>
<tr>
<td>Top vehicle countries of origin: imports</td>
<td>1. Germany</td>
<td>1. Germany</td>
</tr>
<tr>
<td></td>
<td>2. Japan</td>
<td>2. India</td>
</tr>
<tr>
<td></td>
<td>3. UK</td>
<td>3. Japan</td>
</tr>
<tr>
<td>Productivity (Average number of vehicles produced per employee)</td>
<td>10.0</td>
<td>18.5</td>
</tr>
<tr>
<td>Automotive Industry contribution to GDP</td>
<td>6.5%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Number of passenger car model derivatives</td>
<td>356</td>
<td>2 188</td>
</tr>
<tr>
<td>Export destinations for vehicles and components</td>
<td>62</td>
<td>152</td>
</tr>
<tr>
<td>Total vehicles produced (units)</td>
<td>389 392</td>
<td>539 538</td>
</tr>
<tr>
<td>Total new vehicle sales (units)</td>
<td>399 667</td>
<td>624 035</td>
</tr>
<tr>
<td>Number of model platforms</td>
<td>41</td>
<td>13</td>
</tr>
<tr>
<td>Models with production volumes &gt; 40 000 units</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

(Source: AIEC, 2013)

The themes related to the source of MNC bargaining power in proposition 2 are:

- Component industry
- Selected Components Exports
- Employment

Components industry

Ramamurti (2004) stated that Foreign Direct Investment (FDI) through multinational enterprises is the principal source of foreign capital for developing countries. The data in this study revealed that, on the structure of the MIDP,
some industries that didn’t exist before were created, including catalytic converters. At some stage up to 14% of the global catalytic converter market was from South Africa. Meyer (2004) stated that expectation of FDI spill-over benefits to local economy motivated many governments to offer attractive incentive packages to entice investors. It was clear that the MIDP brought investment by OEMs and the spill-over was additional growth and development in the overall component supplier industry.

Another negative impact of OEM investment on the local component supplier industry was the arrival of foreign components companies, due to import tariff relaxation. While this was disputed by another respondent who said these claims were unfounded, the influence of OEMs on component suppliers was evident. OEMs made it a requirement for component companies to become part of the multinational. If the component company was not part of a (components) multinational they wouldn’t be able to continue to supply the OEM.

This was clearly bargain power coercion from the OEMs over the industry’s (upstream) supply chain. This had an immediate impact on the local component suppliers and the host country could not do anything about it. The inaction by HC confirmed the bargain power that had remained with MNCs through FDI.

**Selected Components Exports**

The 1995 MIDP phased-down import tariffs abolished local content requirements and incentivised vehicle and components export by OEMs with import duty offset. This encouraged MNCs to scale production and local components for exports (Black, 2009).

The MIDP incentivised OEMs only for export of vehicles and components, without prescribed levels of local content on vehicles manufactured. This resulted in OEMs shifting focus of sourced components to catalytic converters and leather seats. The value of components exported looked massive but more than half of it is catalytic converters and some leather seats.
Eden, et al (2004) asserted that host governments have shifted from ‘red tape’ to ‘red carpet’ treatment of foreign MNEs. The OEM industry shifted focus to mainly two components development and exports had an adverse effect on other local components output. This entrenched the MNCs relative bargain power over the industry and the HC, since the MNCs were receiving red carpet treatment from the HC.

**Employment**

Employment was always a topical issue at all bargain cycles. During Phase VI, additional employment was not created because of the multi-platform uneconomic production. The DTI wanted to achieve employment growth. Industry showed that it is likely that OEMs will keep producing more and more with the same number of people. MNCs stated that without MIDP, employment would be lost and the DTI swallowed that.

Not all FDI spill-overs were as positive and not all respondents sung praises for OEMs. The employment levels in the supplier industry reduced in the first 5 years of MIDP, due to abolished local content requirements, compared to Phase VI. The increase in volumes later in the MIDP cycle stabilized employment and it began to grow again slowly.

The **OEM’s view on employment** creation was just to maintain the levels of employment. There was no employment lost (except the Global Financial Crisis period) and there was not employment gained. On the contrary, the **Host Country** was implicitly expecting reciprocal employment increase from the incentives benefit afforded to the MNC.

The relative bargain power position of MNC was entrenched, since the government was of the opinion that the Industry did not play the game as they intended. The DTI obviously they want job creation in South Africa.
Changes of approach with APDP

For the third cycle, APDP, the HC made it explicitly clear that employment growth and local supplier industry development were a focus area. There were policy changes in APDP from MIDP which hold promise that will be able to improve the portfolio of components made locally. The apparent change of policy stance supported the premises of the obsolescing bargain theory in that the HC deemed it proper, during the third cycle to review the gains made by the MNCs over the previous cycles.

Revision of proposition 2

The transfer of technology which was presumed to be a possible spill-over effect of the MNC investment was not evident from any of the respondents.

Therefore for this study the proposition 2 can revised as:

*The relative bargain power of MNC is due to FDI to spill-overs effects from component suppliers, selected components exports and employment.*

6.2.3 Proposition 3

*The short product-cycle nature of the automotive industry lends to bargain power shift to MNC*

The OEM investment period led by short product life-cycle set the automotive manufacturing industry apart from extractive and natural resource industries, in terms of bargain relations. New product models required significant level of new plant investment, every seven years or so. The OEM then reviewed current location benefits and decide whether to continue to invest at current location or move the production elsewhere, based on the business case. The threat of a
possible relocation of the production facility maintains or increases the relative bargain power of MNC as the HC is continually uncertain about the future plans of the MNC.

The themes that emerged on the bargain power of MNC from proposition 3 are:
- New generation model cycles
- Investment decisions and uncertainty pressure on HC

**New generation model cycles**

The Vernon 1966 Production Cycle Theory spoke to FDI in manufacturing industries, related to investments with decision between exporting and investing, as products move through a life cycle (Faeth, 2009; Denisia, 2010).

The automotive production industry’s characteristic of short product life-cycle did impact investment planning. The question of new investment with new models shifted the bargain power back to the MNC as it is a significant investment. The automotive industry runs in cycles and the product cycle is about 7 years. At the end of the cycle MNC review investment location decision, creating a new bargain cycle between the MNC and HC.

**Investment decisions and uncertainty pressure on HC**

The South African-based original equipment manufacturers (OEMs) have to compete for new model generation investments and export business against ister companies around the world based on cost-parity exercises (Lamprecht, Rudansky-Kloppers, & Strydom, 2011). Combined with the business case requirement, the investment must be sufficient for the whole life cycle of the product, six to eight years, because expanding later is very expensive (Fleischmann, Ferber, & Henrich, 2006).
The MNC central power was evident in this phase as investment decisions were made. The global (product) cycles deem that when the head office introduces a new model, it’s no question to them and the country, host country, requirements, etc. They still look at the cost-parity exercise, business case, and so on.”

This situation created continuous uncertainty pressure on HC and the value chain, as the product life-cycles do not run at the same times across OEMs. Government remained under pressure from OEM’s who say there is no guarantee, themselves are still engaging with the mother plant as well as organised Labour. The components also do not have a guarantee in terms of supplying, when OEMs managed their business, cycle by model cycle, based on credits earned from exports.

Therefore, the proposition that major investments based on product-cycles led to relative bargain power shifting towards MNCs does hold true in this case and is supported by the literature.

6.3 Emerging Theme

Beyond the findings guided by the propositions above, the following themes emerged from various interview subjects as additional insights into the MNC – HC bargain power relations.

The bargain process between MNC and HC is collaborative process based on shared goals between MNC and HC. The significance of the industry success to the macro-economy led to this co-operative bargain process. Most respondents agreed that the automotive sector successful was due to the joint effort when defining the programs. The MIDC (Motor Industry Development Council) was formed in 1995 consisting of government, industry (NAAMSA and NAACAM) and Labour. This council was formed with a high level of consensus of what needs to happen. We had a common problem but we also at that stage had what I would call an active discussion of the industry policy. This
collaborative approach that emerged spoke to the ‘similarity of interests’ view by Grosse and Behrman (1992).

Emerging proposition based on this theme:

_The relationship that exists between the MNC and HC is of a collaborative nature._

6.4 Sources of bargaining

Ramamurti’s (2001) Traditional Bargaining Model outlined the following elements as the MNC’s sources of bargaining power:

- Technology
- Product Differentiation
- Ability to bring in capital
- Exports
- Product diversity
- Worldwide sizecale
- Potential to play countries against one another

The emerging propositions, together with the findings from the previous chapter, were reviewed against the traditional bargaining model above. From the findings in this research, the following sources on MNC bargain power were supported:

- Capital (Foreign Direct Investment)
- Product diversity (imports for customer choice)
- Exports and worldwide size/scale
- Location disadvantage of the HC
- Employment

The following sources were not supported.

- Technology
- Product Differentiation
This is attributed to the nature of the research which focused on the industry level instead of the individual MNCs. Moreover, Technology spill-over was not evident from any of the respondents. They cited that R&D is centrally based at global headquarters of MNC. This also applied to component manufacturers who follow the technology directives from MNC headquarters.
7.1 Findings

This objective of this research was to understand the MNC – Host Country relations of the automotive manufacturing industry in South Africa against the backdrop of the Obsolescing Bargain Theory. The methodology employed was the qualitative case study with the aim of gathering deeper insights on the research.

Commencing in 1989, the Host Country increasingly entered into bargain relations with the automotive MNCs, in the form of three automotive industry support programs, in the quest to create a globally competitive automotive production industry. The three programs were the 1989 Phase VI Local Content Program, the 1995 MIDP and the 2013 APDP. The three programs, prior and beyond implementation, provided the bargain cycles upon which the dynamics of the obsolescing bargain theory played themselves out.

To meet the research objective, the question asked was how do MNCs maintain or increase relative bargain power over the HC. This question was answered using three propositions and the following findings emerged:

The relative bargain power shifted towards MNCs due to the locational disadvantage of the HC, FDI spill-over effects on components suppliers, employment and technology, as well as due to investments driven by short product cycles. The locational disadvantage to HC was initially entrenched by the vulnerability of the HC during the political and economic transition. This disadvantage was deepened further by the small domestic market and geographic distance of the HC as a production site from the major markets in the northern hemisphere. MNCs investments, driven by MIDP, led to a spill-over effect of development of the components supplier industry and exports. Employment had mixed results – with an initial decrease in the first few years of MIDP but resumed and
sustained as the industry grew on the back of production volumes growth. Contrary to expectations, technology transfer was not evident in the research. Lastly, the characteristic nature of the automotive industry investments driven by short (seven year) product cycles sustained the bargain power on the MNC side. This was from investment decisions from OEM’s global headquarters, based on global sourcing business case, created uncertainty on HC and the supplier value chain. The bargain position of the HC was weakened further by the fact that MNCs do not plan their investments on the same product timeline.

7.2 Contribution of the study

7.2.1 Theory

The obsolescing bargain research is generally focused on the firm vs. government level. This research attempted to bring up the case study higher to macroeconomic industry level, where the Host Country enters in a bargain relation at the industry stakeholder level. The insights sought from the various stakeholders interviewed provided the research with a wide view of dynamics instead of a two-party investigation. The longitudinal view of the case study provided richer insights with cognisance of the effects of differing time periods on the bargain relations. This contrasts the cross-sectional view of the case study which would talk to current situation.

7.2.2 Industry

The South African automotive industry can learn from the study and apply the findings to future bargain cycles. It was apparent, from the interviewees, that agreement of any program objectives and expectations is important to ensure that all parties can hold each other accountable for outcomes, going forward. This need was visible when talking to different parties regarding the expectations and outcomes of employment levels, from the support programs.
A number of stakeholders interviewed provided good suggestions for the industry to achieve the ambitious growth targets it aspires towards by 2014. These are summarised in the graphic below, presented by Naamsa in 2011.

Figure 4: Enablers to Grow SA Automotive Industry

Essentially, the various stakeholders who have a direct impact on the automotive industry, manufacturing sector and the overall country’s economic competitiveness, should work as a cohesive unit. The current fragmented approach at government level will not achieve sustainable results and could have conflicting actions which affect the overall priorities for economic growth. These efficiencies to increase the country’s economic competitiveness would eventually enable the industry to stand on its own without requiring support programs from the Host Country.

The last recommendation for industry emerged from the glaringly missing technology transfer to local industry. Despite the extensive amount of industry support, there is no evidence of reciprocal R&D for the sustainable linkages into the South African economy. Investment into local research for components
design and development could be a condition for future industry support programs. This requirement would increase utilisation of the various government research centres and lead to commercialisation of research output.

7.3 Recommendation for future research

From the research, the following themes emerged that could be considered for future research by other scholars:

The research into the influence of the South African government hub for organisations venturing to the fast-growing African economy: the dynamics at play in this regard could be of interest.

Another research recommendation emerged from the collaboration of stakeholders. This approach has proven to yield the success of the industry growth over the past 25 years. Extended research into application of the collaborative approach to other industries could yield interesting findings. The last recommendation for research is on the effect of foreign investment on local industry. This came from the effect of MNC FDI on the components suppliers.
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SABC (Producer), & SABC Digital News (Director). (2014, October 10). *Nissan says SA will continue to be it's hub as it expands into africa.* [Video/DVD] Johannesburg:


Appendix 2: Interview Questions Guide

The research interview will discuss the following Topics, among others:

1. Industry bargain cycles: late 1980s (Tariffs), 1995 (MIDP) and 2013 (APDP)
   a. Impact of the late 1980s tariffs relaxations program
   b. Impact and results of the 1995 MIDP program
   c. Expectations from the 2013 APDP program
2. Key characteristics of each bargain cycle and differences between the three
3. Impact of the cyclical nature of Automotive Industry to bargain positions
4. Supplier rationalization due to high volume
5. Business Propositions discussed in depth:
   a) Employment effects and FDI during each cycle
   b) Technology advancement of industry
   c) Spill-over effects of OEM FDI (e.g. Components supplier industry)
   d) Other industry spill-over effects – upstream and downstream
6. The sustainable environment for Automotive business investment
7. The future of Automotive business in South Africa

The questions will be open ended to gather deeper insights from the interview subjects. The above topics will guide content but not be the limits of discussion for further insights.