INTEGRATING LESOTHO ECONOMY INTO THE REGIONAL AUTOMOTIVE VALUE CHAIN

MANUFACTURING OF CAR-SEAT COVERS

A Research Report

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Master in Commerce in Management Practice, Specializing in Trade Law and Policy

By

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ABSTRACT

The purpose of this study was to analyse the Automotive Industry in Southern Africa, to assess how best Lesotho can contribute to this supply chain. This analysis was done to better understand the sector, to identify Lesotho’s potential to produce car seat covers for South African automotive assembly plants, and find the best trade policies and programmes to support value chains in the sector. The plan was to assess the possibility for Lesotho made automotive components manufacturers to supply the Original Equipment Manufacturers (OEMs – the main automotive assembly plants), and use the South African Automotive Industry as the entry point for the Lesotho components to penetrate the Regional Automotive Value Chain. The main focus of this study was the manufacturing of car-seat covers to supply the seven Original Equipment Manufacturers namely: Volkswagen, BMW, Renault, Toyota, Daimler Chrysler, Ford and Mercedes Benz. The impact of Motor Industry Development Programme (MIDP) and Automotive Production and Development Programme (APDP) on the industry was assessed.

The impact of the APDP on relocation of components manufacturers to other Southern African Customs Union (SACU) countries was assessed, Lesotho being used as a case study. It set out to find out if Lesotho firms have the potential to contribute to the automotive value chains through manufacture of car seat covers. The methodology employed in the study included reviewing relevant literature on automotive and stakeholder interviews. The three sets of questionnaires were developed and distributed through emails to the three car seat covers/components manufacturers, the policy makers like the Department of Trade and Industry (DTI) and support institutions as well as the industry associations. The three main car seat covers, Lear Corporation, Johnson Control and Automotive Leather Company were sent questionnaires, followed up with interviews. The main challenges were reluctance of the automotive industry players to respond to the questionnaire for data collection purposes.

The methodology adopted in this paper was mixed, using both quantitative and qualitative data. Being in Lesotho and collecting most of data from South Africa was also a great challenge due to limited time and other resources. The study found that, in Lesotho while there are still a lot of improvements to be made, in terms of upgrading of skills, infrastructure development, country operational costs, supporting policies, engaging and managing
stakeholders, as well as development of a sector specific value proportion with a clear incentives package, there is potential for Lesotho firms to manufacture car seat covers and other small components of automotive for the South African OEMs. This is in line with other studies that indicate that small economies neighbouring bigger economies can benefit from production of high labour intensive small components of finished products.
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## GLOSSARY OF TERMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>AIDC</td>
<td>Automotive Industry Development Centre</td>
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<td>AIEC</td>
<td>Automotive Industry Export Council</td>
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<td>AIS</td>
<td>Automotive Investment Scheme</td>
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<td>APDP</td>
<td>Automotive Production and Development Programme</td>
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<td>ASCCI</td>
<td>Automotive Supply Chain Competitiveness Initiative</td>
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<tr>
<td>CMT</td>
<td>Cut, Make and Trim</td>
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<tr>
<td>DTI</td>
<td>Department of Industry and Trade</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GVC</td>
<td>Global Value Chain</td>
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<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>IRCC</td>
<td>Import Rebate Credit Certificate</td>
</tr>
<tr>
<td>ITAC</td>
<td>International Trade Administration Commission of South Africa</td>
</tr>
<tr>
<td>LNDC</td>
<td>Lesotho National Development Corporation</td>
</tr>
<tr>
<td>LRA</td>
<td>Lesotho Revenue Authority</td>
</tr>
<tr>
<td>MIDP</td>
<td>Motor Industry Development Programme</td>
</tr>
<tr>
<td>MTICM</td>
<td>Ministry of Trade and Industry, Cooperatives and Marketing</td>
</tr>
<tr>
<td>MFA</td>
<td>Multi Fiber Agreement</td>
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<tr>
<td>NAACAM</td>
<td>National Association Automotive Components and Allied Manufacturers</td>
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<td>NAAMSA</td>
<td>National Association of Automobile Manufacturers of South Africa</td>
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PLAGIARISM DECLARATION

I, ‘Malira Sekonyela, hereby declare that the work on which this thesis is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor any part of it has been, is being, or is to be submitted for another degree in this or any other university. I authorize the University to reproduce for the purpose of research either the whole or any portion of the contents in any manner whatsoever.

Signed by candidate

Signature: Signature Removed   Date: 3rd August, 2015
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CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION

The study analyses the South African (SA) Automotive Industry, identifies different components required by the South African Original Equipment Manufacturers (OEMs), assesses the possibility of Lesotho firms manufacturing car seat covers to supply these OEMs, and develop best policies and programmes relevant to support value chains in the sector. The plan is to use the South African automotive industry as the entry point for Lesotho made components to penetrate the regional automotive value chain.

The main focus of the study is manufacturing of car seat covers to supply the seven (7) OEMs namely: Volkswagen, BMW, Renaults, Toyota, Daimler Chrysler, Ford and Mercedes Benz. To support this study, literature on global, regional (South Africa) and Lesotho automotive value chains was reviewed. The impact of Motor Industry Development Programme (MIDP) and Automotive Production and Development Programme (APDP) on relocation of components manufacturers to other neighbouring SACU countries, with specific focus to Lesotho was assessed.

Literature on value chains shows that smaller regions and countries will have to specialize in components, sub-systems or parts of production process in which they can excel within the global value network (Roos, 2014). The global value chain is the defining feature of the 21st Century international trade. They develop an increasing importance and impact in the world trading system. If ignored, they may be detrimental to the national economy. According to Gereffi (2010), value chain describes the full range of activities that firms and workers perform in order to bring a product from its inception stage to the end use. This includes activities such as design, production, marketing, distribution and support to the final consumer. He further states that value chain is the fragmentation of production process and lengthening of supply chain. It can happen within the same firm or different firms by different countries.

Different parts of value chains are located in various countries through outsourcing, offshoring and Foreign Direct Investment (FDI). However, one can easily notice value chains in manufacturing. This value chains are also visible in services including finance and telecom. The global trade seems to be growing faster along the value chains. Trade in value
chains is the major player in employment creation and productivity. In this new trade trend, exports seem to depend a lot on imports as manufacturing plants purchase intermediate goods from various countries to feed their final product plants. The main advantage of this value chain is that it allows small firms or small economies with little capacity to produce small components of intermediate goods to supply the manufacturing or assembly plants by large firms or developed economies.

There are a number of different companies in the automotive industry, they range from components manufacturers, production plants (OEMs) to institutions involved in research and development as well as organizations that specialize in the design, development, manufacture, marketing, and selling of motor vehicles. The industry is one of the world’s most successful and best performing economic sectors due to generation of revenue. Globally, the automotive sector is one of the largest employment sectors (Barnes, 2008). According to OICA (2013)’s estimates, in developed countries, out of at least nine jobs, the automotive industry is responsible for one.

The industry has increased in consolidation in the past fifteen (15) years. There has been an increase in global integration brought about by lower trade barriers by individual country’s World Trade Organization (WTO) commitments. The share of developing countries in global production and exports has increased due to expanding markets in these developing regions as well as the drive by global automotive firms to source both assembled vehicles and components from these cheaper regions.

In Lesotho, the best performing sector is manufacturing, especially textile and garment sector brought about by the African Growth and Opportunity Act (AGOA) trade preferences, which gives Lesotho originating products a chance to get to the USA market quota free and duty free. Unfortunately, performance of this sector is highly dependent on this preference and is therefore very vulnerable to changes thereof. The economy has for a very long time been reliant on this sector. This long time reliance on one industry has made Lesotho economy vulnerable to external forces such as the possible expiry of the US AGOA. If these trade preferences expire, Lesotho economy will be hit-hard unless the country starts putting the economy in order by diversifying into other sectors, products and markets. In response to this, Lesotho has developed a Diversification Strategy which includes integration of the economy into the Southern African Customs Union (SACU) Automotive value chain.
The idea is to manufacture small components of finished products to support the South African Automotive Industry. While the South African Automotive industry is highly incentivized, manufacturers in Lesotho can benefit from a good supply of productive labour at competitive wage rates. The goal is to finally develop Lesotho into a regional hub for automotive components production. A research into this study and specifically, a response to the question, “are Lesotho firms competitive to produce car seat covers to supply the South African automotive value chain and what policies are necessary to support the sector?” would aid Lesotho to find its competitive advantage and better implement strategies to make its first entry into the South African industry. This will be an initial step in diversifying the economy.

According to Staritz and Morris, (2011), many Least Developed Countries (LDC) and developing countries are integrated into the textile and garments global value chains through Foreign Direct Investment (FDI). The same scenario also applies to Lesotho. The country seems to have developed a strong and healthy textile and garments sector amongst the Sub-Saharan region. It is considered the largest exporter of textile and garments into the US market. Lesotho’s Foreign Direct Investment is occupied by the firms, mostly Taiwanese who were brought about by the trade preferences Lesotho enjoys under African Growth and Opportunity Act (AGOA). Another segment of FDI on textile serves the South African market.

There is currently too much dependence on the manufacturing sector, especially textile and garments products, exported to the USA market which is very detrimental to Lesotho’s economic performance. This proved true in 2012 when the main clause, Third Country Fabric Provision (TCFP) within AGOA trade preferences was anticipated to come to an end. Most buyers became reluctant to place orders with Lesotho firms and this resulted in companies’ closures and retrenchment of factory workers. According to (Staritz and Morris, 2011), another negative impact on performance of the Lesotho textile and garments sector was due to a number of unavoidable reasons such the phase out of Multi-Fibre Agreement (MFA) in 2005. China and other countries that produce textiles and garments at very low and competitive cost to export to developed countries’ markets quota free also affected the Lesotho textile and garment sector, and their performance went down (Staritz and Morris, 2011). The industry was also affected by the downfall in the global market including US which is Lesotho’s main trading partner in regard to textile during the global financial crisis in 2008/9. This resulted in a major decline in apparel exports of Lesotho. It is therefore, worth investigating whether Lesotho cannot utilize or take advantage of the new generation trade
issues such as value chains and assess possibility of contributing into the regional automotive value chains and develop new products as well as serving the new markets.

The study identifies alternative markets and new products that Lesotho can invest in now and post AGOA preferences. This study will however, place more focus on regional automotive value chains with specific focus on how best Lesotho can use South African Automotive Industry as the entry point into the automotive components sector. The study will focus on manufacturing of car-seat covers to service the South African Automotive Sector. Given the skills level and capacity, Lesotho can begin with the manufacture of car seats covers, then proceed on to other components like plastic and leather interior accessories and electrical components production such as wire harnessing. Leather processing and sewing does not require high level skills and with an average of 7,000 students that leave high school annually and a current over 70,000 people with an experience of garment manufacturing, there exists a pool of trainable labour force to tap into (Textile industry status report, 2013). Attracting investment in this sector will bring diversification to the Lesotho industrial structure which is currently dominated by garments and textiles.

The automotive industry also has potential to employ a significant number of skilled and semi-skilled workers. Lesotho local private sector is not yet capable to invest in automotive components manufacturing, however they are already engaged in services such as logistics to support the industry. The aim is to develop an integrated automotive cluster. Through this cluster development, we hope to realize a lot of linkages between these foreign nationals and the local businesses. Over and above this, increasing investments in this sector will develop and improve the skills base of the local labour force which is currently limited by experience in textile and garments sector only. This will further improve the country’s productive base and standards of production. The automotive industry is said to be using Just-In-Time (JIT) approach which requires best practices to monitor production efficiencies such as new management and organizational techniques, quality control and management standards, and marketing methods.
If the recommendations of this study are implemented and efforts to integrate Lesotho into the automotive value chains are aggressively implemented in a structured manner, Lesotho will gain a lot of economic benefits in terms of technological and skills transfer, increased exports, and employment creation by this high labour intensive industry as well as a lot of forward and backward linkages that comes with integrating into these value chains. The study will not only diversify the economy and confront the challenges of a one industry-dependent economy, but will also enhance the country’s economic growth by facilitating its regional positioning through these value chains. However, it is clear that any automotive component sector activity in Lesotho would be closely tied to the existing automotive sector industry in South Africa. Automotive assembly and automotive component manufacturing are one of the largest industries in South Africa and accounts for over one third of all South African manufacturing output. Automotive component manufacturing in South Africa is a very significant sector in its own right and was estimated to have generated over $60 Million in total revenues in 2014.

Component manufacturing in South Africa, while strong, has been experiencing a series of competitiveness issues as well as supply chain management problems over the last few years. Labor costs, industrial relations and instability such as strikes, and energy costs and availability have hampered the competitiveness of the sector. Consequently, in order to remain competitive, there is pressure on automotive component manufacturers to decrease costs and enhance customer service levels. Lesotho is anxious to insert itself into the Southern Africa automotive component value chain.

Lesotho has a number of competitive advantages that may entice RSA (and other) component manufactures to expand and insert it into the value chain. These include:

- **Low manufacturing tax rates:** 10% for all manufactured products
- **Competitive wage rates:** minimum wage rate of US$ 120; RSA wage rates in this sector are roughly three times higher than in Lesotho
- **Some APDP benefits will accrue to manufacturers based in Lesotho:** products made in Lesotho would still enter the RSA free of duty; thus existing producers would continue to have unfettered access to their RSA customer base. Additionally, it seems possible that component manufacturing in Lesotho would be eligible for the Production Rebate Credit Certificates incentive of the APDP – however Lesotho
would have to develop its own certification process and validate this with RSA authorities.

- **Better global access:** Lesotho, as a Least Developed Country (LDC), has duty and quota free access to most of the OECD economies. Its access is generally more favourable than that which accrues to the RSA.

- **Ideal geographic location:** Lesotho is geographically close to all *(vis a vis existing RSA automotive component manufacturers)* automobile manufacturing plants in the RSA (e.g. it is about 600km from East London (where Daimler-Chrysler/Mercedes Benz is located); about 750km from Port Elizabeth (Volkswagen & General Motors/Delta); about 550km from Pretoria (BMW & Nissan); and, 550km from Durban (Toyota)).

- **Close to air export hub:** Lesotho is about 450km away from Johannesburg International Airport (it is expected that a significant amount of components manufactured in Lesotho would be exported).

- **Utility costs**

  Lesotho has affordable operating and production costs including utility costs. The factory shells rentals are also subsidized. Lesotho utilizes hydropower and is still making further efforts to develop more water pump storages for production of hydropower for local consumption. The recently constructed Metolong dam supplies water to the country for local consumption.

  It is against this background that the following study is undertaken.

### 1.2 Research Background

#### 1.2.1 South African Automotive Industry Recent Performance

South Africa is the most sophisticated economy in Africa. Its domestic GDP is R3, 385 billion in current prices (Export Manual, 2014). It is an open economy with trade liberation contributing to country’s growth and prosperity. The country has abundant natural resources and well developed financial, legal and transport sectors, as well as a good network of infrastructure.

The South African Automotive Industry, in its 2020 Vision under the new automotive policy, Automotive Production and Development Programme (APDP), aims to double its unit production and produce 1.2 million vehicles per annum which will also corresponds to 1.2 million vehicle components. There is a need for OEMs to grow their volumes, but also for the
components suppliers to develop their exports. South Africa needs to improve its competitiveness through labour stability and other variables that affect the cost of production. It is aimed to increase number of components made locally/deepen localization as well as increase local value added per component. This would result in increased employment in the sector. According to Department of Trade and Industry (DTI), APDP is just one of the many instruments used by the South African government to support the automotive industry. It was introduced in January, 2013 as an improvement of the previous MIDP which was perceived to be non-World Trade Organization (WTO) compliant. South Africa’s vision is to produce 1, 200 million vehicles per annum, doubling current production by 2020. The APDP objective is therefore, to increase/improve levels of production to reach the target vision as well as to deepen local content of the SA components and vehicles. While the MIDP focused mainly on exports, APDP focuses on production and local content as well as overall competitiveness. OEMs are encouraged to use modern technology and to increase their volumes of production to ensure that local manufacturers enjoy economies of scales.

SA government also strictly limits the import of used vehicles into the country, which effectively promotes its own industry. However, for most component manufacturers, they feel that APDP has become more of an administrative system which the industry claims is in favour of the OEMs. This is so much that even the tier-2 and lower tier suppliers feel that the various government incentives do not concern them. This is further supported by the National Association of Automotive Components and Allied Manufacturers (NAACAM), which in its meeting advised that the automotive components manufacturers have a few categories. These includes Tier 1 which are highly mechanized and supply the components directly to OEMs, Tier 2 and 3 are mainly labour intensive component manufacturers and are not very well catered for within the APDP. There are also small engineering firms owned by elderly people, who will be out of the industry in just over a few years without clear succession plans. Lesotho should focus its investment promotion efforts on labor-intensive firms and these components manufacturers. There exists a risk that these Tier 2 and 3 companies may disappear or relocate into other countries in the near future if SA government does not pay attention to them.

For the improved success of the APDP, leading to increased employment, there is necessity to seek for all hands-on-board approach, through buy-in from all parties. Nevertheless, the industry has witnessed immense growth in the recent years. According to NAACAM (2013), the authority of South African Automotive component industry, which comprises 140
national members and 220 manufacturing sites, the total turnover was estimated at R53 billion in 2013. However, in 2012, the turnover was estimated at R57 billion, and recorded a 7.5% decrease in 2013. There were duplicated sales from sub-components which were estimated at R1.6 billion. At the end of 2013, the industry estimated employment at 74,643 which is 6.6% higher than 2012 but still below the peak of 2008 (NAACAM, 2013).

There was a long term strike in the automotive industry in 2013. There was also a global economic downturn in 2008/09 that affected the motor components industry. These two (2) setbacks, together with European Union (EU) crisis severely affected the motor industry and resulted in very low levels of exports (Staritz and Morris, 2013). Total components sold to OEMs were reduced by 8% and those exported outside were reduced by 2%. This is in comparison to 2012 estimates. In 2013, the overall automotive components manufacturing sector realized a total turnover of R81 billion. NAACAM members' capital investment in 2013 is estimated at R2.0 billion and total component industry capital expenditure is estimated at R2.9 billion.

1.3 AIMS AND OBJECTIVES OF STUDY

The main aim of this study is to analyze the South African Automotive Industry, and assess how best Lesotho can contribute to its supply chain. This analysis is done to better understand the sector, to identify Lesotho’s comparative advantage and find the best trade policies relevant to support value chains in the sector.

1.3.1 SPECIFIC OBJECTIVES ARE:

- Assess the South African Automotive Industry with regard to car seat covers manufacturers
- Undertake the Lesotho SWOT Analysis in regard to the sector
- Assess the South African car seat covers plants and identify the Lesotho’s Comparative Advantage
- Identify the relevant trade policies to support this value chain in the sector

1.4 RESEARCH QUESTION/PROBLEM (PROBLEM STATEMENT)

Lesotho is not diversified in terms of products and markets. Manufacturing is the largest sector of the economy and the second highest employer. However, it places more focus on manufacturing of textile and garments which employs at least 40,000 locals in 2013 (Lesotho Industry Status Report, 2013). Unfortunately, this sector is unreliable and cannot be solely
depended on due to its volatile nature. Lesotho is likely to be hit hard by the external forces like the global financial crisis in the US market and the preference erosion due to too much reliance on trade preferences especially US AGOA. There is a dire need for alternative ways of sustainable investments and employment creation. The study undertakes to investigate how best Lesotho can contribute to the Regional Automotive Industry value chain to satisfy its diversification goal. Manufacturing of car seat covers is used as a case study to make this assessment. The aim is to use the South African Automotive Sector as an entry point for Lesotho components to penetrate the regional Automotive Value Chain. The main question is “Where does Lesotho’s comparative advantage lie within the regional automotive value chain and what policies are necessary to support the sector?”

- How is the performance of the South African automotive components industry/car seat-covers manufacturers?
- Is the current Lesotho investment environment conducive for production of car seat covers?
- Where do SA OEMs currently source their automotive components from?
- What challenges do SA components manufacturers encounter to supply the OEMs?
- Which policies are necessary to support Lesotho’s integration into the sector?

1.5 RESEARCH ASSUMPTIONS

- The main assumptions of this study is that LNDC and Lesotho as a whole will continue supporting diversification towards automotive components as a strategic move, hence support in terms of time, finance, training and other resources will be provided.
- The second assumption is that the participants/interviewees will be supportive and provide valid and most current information.
- The assumption is that the information and statistics provided by the relevant stakeholders was accurate and correct to use as a basis.
- Another assumption is that there are harmonious relations between Lesotho and South African automotive counterparts in regard to smooth relocation/expansion of automotive operations
1.6 INTRODUCTION INTO METHODOLOGY

In order to fully undertake this study, a mixed approach in obtaining and analyzing data was adopted. To obtain the relevant information for analysis, three sets of questionnaires were constructed to conduct interviews with identified relevant interviewees which were categories into three (3) groups as car seat covers components manufacturers, policymakers and support institutions, as well as industry associations. Both qualitative and quantitative methods of data analysis were utilized. The main focus was the South African Automotive Industry. The case study here is to assess the possibility of manufacturing car seat covers in Lesotho to supply the South African OEMs. To gather more information, a research trip to South African Automotive Week (SAAW, 2014) was undertaken, as well as a study tour to Rosslyn Automotive Supplier Park in Pretoria and Poland.

1.7 LIMITATIONS OF THE STUDY

Even though this study was carefully researched, it still has a number of limitations and shortcomings. Firstly, the sample size used is small. This was due to a limited extent, the low response rate by the identified interview participants. However, the used sample is representative of the majority as the leading car seat covers manufacturing companies in South Africa were mainly interviewed. Secondly, the study was limited by both financial and time resources to aid collection of data. However, the sample managed to provide the researcher with enough information and evidence to support the findings and conclusions of the study.

1.8 RATIONALE AND GOALS

This paper seeks to assess the possible ways for Lesotho to diversify its product and market in order to contribute to intra-regional trade in value chain. The interest is this specific question, ‘how best can Lesotho contribute to the Regional Automotive value chain?’ was brought about by the evident lack of diversification in Lesotho FDI. The question was further influenced by the serious need to reduce reliance on textile and US market. On realizing that Lesotho already has experience in Cut, Make and Trim (CMT), production of car seat covers become a necessary research study to explore. It emerged out of a practical need to assist the Lesotho National Development Corporation (LNDC) as well as Lesotho Government to achieve its National Strategic goal of diversification as shown in the current National Development Strategic Plan (NSDP) and the Corporation’s Strategic Plan. The interest was further raised by daily lessons and discussions on global value chains. The answer to this
broad question and the overall research and assessment of the automotive industry and regional value chains will bring about practical solutions to aid LNDC to take its Strategic and Diversification Plan forward as the agency entrusted with building industry through investment promotion.

1.9 STRUCTURE OF THE THESIS

Chapter 1 is the introductory chapter. It reflects on the context of the study. It offers background with special focus on global automotive industry, South African and Lesotho industry. It further provides the statement of the problem. A brief introduction of the methodology is provided. It highlights the research assumptions, rational of the study and the overall structure of the thesis.

Chapter 2 focuses on review of the automotive industry literature based on relevant publications, research journals as well as reports by industry associations and support institutions, theoretical framework and empirical literature.

Chapter 3 focuses on design and methodological activities involved in the study. It reflects on what the case study focuses on. In this case, the possibility of Lesotho manufacturing car seat covers for the South African OEMs. It provides the detailed description of the methods used to collect and analyze both qualitative and quantitative data. It provides information on research site, participants and the selected sample. Finally, it provides summary of the key features of methodology.

Chapter 4 focuses on results of the study. It provides the final interpretation and presentation of results of the study. It shows a tabulation of tables, figures and graphs to depict the comparison of the South Africa to Lesotho. It further provides the overall summary of the results.

Chapter 5 only focuses on overall discussions of the whole study. It provides a brief review of each chapter and highlights the main points on each. It discusses the findings and interpretation of results.

Chapter 6 provides conclusions and recommendations and reflects on future possibilities of taking the study further. Finally, it provides implications of the study for practice.
CHAPTER 2 LITERATURE REVIEW

2.1 INTRODUCTION

Literature on the automotive value chain shows that the world trade reflects patterns of globalization, which require a new trade agenda focusing on new generation trade issues, referred to as a 21st Century trade agenda (Gereffi, Kaplinsky, Schmitz, 2010). It is imperative for the countries to review their national and regional policy space to accommodate these new trade developments. They further advise that ignoring these issues can prove very detrimental to the national economy. Countries should also make effort to align themselves with these new trade developments and take active participation through investing in corresponding facilities. It is important for national economies to continuously invest on research and development (R&D), to learn and innovate in order to improve their competitiveness in the global markets.

According to Gereffi et al (2010), in their study on Global Value Chains (GVC), the international linkages play an important role in world economic growth and development. They assist countries to get access to technological knowledge, promote learning and innovation and results in employment creation. However, same study shows that despite this evident change in world trade, African economies seem to lag behind in responding to the needs of the 21st Century. There is evidently, less research and development on such, and little or no supporting policies to aid improved performance.

OECD (2013) advises that for African economies to penetrate the global markets and take full advantage of the value chains, they need to take a pro-active approach and invest more on research and development (R & D). Literature further supports that investing in people is important for engagement and upgrading of GVC. If countries do not invest in development of people’s skills, getting involved in GVCs may not produce the best and expected results (OECD, 2013). People who lack skills may not be productive and innovative enough to realize growth, and countries may no longer be able to compete in an increasingly knowledge-based global economy (OECD, 2013). Studies support that in order to drive economies and participate effectively in GVCs, a relevant skills strategy for a specific industry value chain of focus, that will be maintained and upgraded should be developed.
Literature shows that, in order to participate fully in global value chains and increase and grow exports and better income, the local enterprises must make efforts to upgrade the quality of their products and services. They should be more efficient and involve themselves in value addition by focusing on higher value products and moving into more skilled activities (Schmitz, 2004). The local sources of competitiveness need to be strengthened. Schmitz (2004) further notes that economies need to develop synergies, clusters, systemic competitiveness, collective efficiency or local innovation systems. Bair and Gereffi (2003) defines industrial upgrading as a core concept for moving to higher value activities in order to increase the benefits from participating in global production. According to Porter (1990) and Kaplinsky (2000), upgrading is making better products, making them more efficiently, and moving to more skilled activities to improve competitiveness. Staritz and Morris (2011), however, conceptualize upgrading into in four types as follows:

2.1.1 Process Upgrading

Transforming inputs into outputs more efficiently by re-organizing the production systems or introducing superior technology.

2.1.2 Product upgrading

Moving into or producing more sophisticated product lines in terms of increased unit values.

2.1.3 Functional upgrading

Increasing the range of functions or changing the mix of activities to higher value tasks, acquiring new, superior functions in the chain such as design, marketing or abandoning existing low value added functions to focus on higher value added activities. Bair and Gereffi (2001) share the same view.

2.1.4 Chain upgrading

This means escalating on the value ladder. It is moving from one industry to another. Thus, moving away from activities in which competition is of low road type and entry barriers are low. Intersectoral upgrading is also applying the competence acquired in a particular function to move into a new sector.

2.1.5 Supply chain upgrading

Establishing backward and forward linkages
2.1.6 Channel upgrading

Diversifying to new buyers or new geographic or products market

Elm and Low (2013) claim that some governments, though not all, recognize the importance of participating in GVC. They realize that GVC bring value and opportunities to their workers and economies. They have therefore, tried to develop friendly policy frameworks that will support the value chains industry. They further reiterate that the predominance of supply chains in the economies of many countries calls for a careful consideration of where we are headed as a global community. They encourage countries to think about how to influence developments positively and adapt where they cannot. Literature further shows that there is change in the location of production. Historically, production used to take place in the East for consumption in the West. In the new era, this is a global initiative (Elms and Low, 2013). This rise in global value chains is brought by advances in ICT, logistics and more open markets. According to Elms and Low (2013), value chains are beneficial for small developing economies as it enables specialization, and production fragmentation. The importance of policy measure at borders is therefore crucial. Trade in value-added can provide a more complete picture of economic activities like income generation, job creation and profit making. According Safadi (2013), the implications of GVC for Trade Policy are as follows:

- Tariff are cumulative, magnifying the costs of protectionism
- Border bottlenecks are also magnified (trade facilitation)
- Reducing border thickness as important for imports as for exports, costs can even be prohibitive for trade and investment
- Standards (public and private) matter, especially for SMEs.
- Efficient services sectors underpin manufacturing as well as services sector growth
- The benefits of comprehensive trade opening on a multilateral (and plurilateral) basis are also magnified
- Trade openness needs to be accompanied by appropriate policies such as
  a. Public investment in people (education, skills and social protection)
  b. Public investment in innovation, ICT and infrastructure
  c. Regulatory frameworks and institutions (attract private investments)
2.2 Purpose of the Study

This study is relevant not only to the Lesotho National Development Corporation (LNDC) as an Investment Promotion Agency (IPA) charged with development of Lesotho industry through foreign direct investment and local private sector, but to the government of Lesotho and the South African automotive industry as a whole. The stakeholders can use it as a reference point to develop implementation strategies or to get insight in the South African automotive industry and the opportunities it presents for Lesotho development. One of the strategic goals of the current Lesotho National Strategic Development Plan (NSDP) as well as the LNDC five (5) year Strategic Plan is to diversify the economy through development of new markets and production of new products.

The components automotive sector seems the next best alternative product that the Lesotho industry can manufacture. Given the high labour intensive nature of the industry and the lower wages in Lesotho, the study would also be beneficial to SA economy and entice them to cooperate in development of the Regional (SACU) Automotive Component Development Strategy. That is, instead of leaving SA for other regions, the ailing companies in SA would rather relocate to Lesotho which is still within the region, and still qualify for local content benefits. This would also benefit SA economy in terms of vicinity, which would turn into lower transport cost for components manufactures as well as SA OEMs. There is a great cooperation potential to benefit the two countries. This would enable the SACU countries to retain automotive components investment within the region instead of losing them to countries abroad. This study is particularly important because, as a new and untapped industry in Lesotho, that has potential to improve Lesotho’s competitiveness and contribution in the regional value chains, the industry needs great government and institutional support in terms of programmes, incentives and policies. This study is intended to be an eye opener to the Lesotho national stakeholders to realize the potential the country has beyond the textile and garments industry.

2.3 Theoretical Framework

Global value chains (GVCs) have created a new trade reality for businesses, policymakers and scholars. Johnson and Noguera (2012) found that in the past, international trade primarily involved the exchange of final products, but now trade in intermediate inputs accounts for roughly two-thirds of international trade.
All the countries in the world seem to be involved in global value chains. It does not matter if
the country is poor or not. Value chains seem to dominate the world economies at all levels of
development. The most competitive producer specialises in the products in which he is most
efficient in terms of production costs and quality. That is availability of skills and materials
used at affordable prices (Petersburg, 2013). As a result of this new pattern of production where
production process is fragmented across borders, there arises a new pattern of trade and
investment policies as well as investments that are in line with this new fragmented production
process. These new prospects come with opportunities for growth, development and jobs.

Petersburg (2013) contends that this new trade phenomena means that in the new century, the
world trade comprises of components crossing borders multiple times as they go through
different value addition processes. This thus means that in order to manage and reduce business
costs and boost growth, it is necessary to advocate for removal of tariffs peaks and escalation
in agriculture as well as in manufacturing. Further to this, we also need to address non-tariff
barriers affecting both goods and services (WTO, UNCTAD, OECD, 2013). Literature on
global value chains further supports that well-structured policies that compliment and
accompany these new trade and investment patterns are necessary and crucial if nations are to
realize their growth and development aspirations (OECD, 2013). These complimentary policies
should be done both at national and international level as there is a great link between the two.
This will further develop the least connected economies.

Since the world economies trade with each other as a result of growing fragmentation across
borders, this implies new policies to suit this wider global trade. Countries are advised to open
their economies, and develop predictable and transparent trade and investment regimes.
Opening the economies, as well as having predictable and transparent trade and investment
regimes allows for better performance of firms not only in the domestic economy but also in
the foreign economies. This is because, due to this new trade phenomenon of GVCs, tariffs,
non-tariff barriers and other restrictive measures impact not only on foreign suppliers, but also
on domestic producers (OECD, 2013). This way, individual countries will be able to reap and
gain from the benefits of global value chains. With this new pattern, accumulated tariffs and
other restrictive non-tariff measures affect foreign suppliers, domestic and international
producers alike.
Countries need to invest in skills to improve their production capacity. There is a need for good infrastructure and consideration of all other challenges that may deter development of developing economies (Petersburg, 2013). If a country already participates in production networks and improves value addition of its domestic products as well as retains its existing networks, or wishes to participate in global networks, it is essential for such a country to invest in development of both skills and infrastructure to support their vision.

This increasing presence of global value chains (GVC) has been considered one of the most important features of rapid economic globalization. This phenomenon is also making its way to Lesotho’s investment and trade patterns. Lesotho is planning to produce and supply the automotive components into the South African Automotive Industry. The representative phenomena relating to the context of GVCs include:

- Vertical Specialization
- Fragmentation Production
- Outsourcing

Despite the use of different terms, all of them mean the same thing. A higher volume of intermediate goods, such as parts and components, is produced in sub-sequential stages or processes across different countries, and then exported to other countries for further production. This global value chains have become the defining feature of world trade for both developing and developed worlds.

The growing need for fragmentation of production across borders highlights the need for countries to have open, predictable and transparent trade and investment regimes because tariffs, non-tariff barriers and other restrictive measures impact not only on foreign suppliers but domestic as well. Downstream firms face tariffs on their imported inputs as well as on the finished products. This results in low demand of such goods which discourages production and investment in such.

In GVC, the cost of protection is higher than generally understood especially if an economy has a larger share of intermediate imports in their exports. Protection measures against imports of intermediate inputs increase cost of production and reduce country’s ability to compete in export markets. Tariff and non-tariff barriers increase tax on exports. In the same manner, if a country restricts access of foreign intermediate goods and services, it becomes detrimental to that country’s position at Regional Value Chains. The cumulative effect of
these seemingly small costs discourage investment in such an economy (OECD, 2013). Nations and regions should therefore consider all these dynamics of GVCs when developing trade policies.

There are many efforts in the world to involve economies in value chains. This is evident by a number of initiatives done by international organizations. Made in the world initiative launched by the WTO raises public awareness and deepens analysis of implications of GVCs. OECD countries and WTO also derived a comprehensive set of trade in value-added indicators to form Trade in Value-Added Initiative.

This new trade practice requires the firms to improve their individual competitiveness in order to play an active role in the industry. To compete in the industry, firms must analyze their competitive advantage and make necessary reforms to improve it. The industry itself must be supported to develop its competitive strategy. Porter (2008) advises that companies must perform a wide range of discrete activities in a cost efficient manner at best quality to produce or assemble goods at low cost but still create value for customer. Activities are what generates costs and create value for the customers. He advises that if this is done, firms will achieve their competitive advantage.

Competitive advantage introduces the concept of value chains. Firms must think strategically about activities of the business and assess their relative cost and their role in differentiation value. The value between what buyers are willing to pay for a product, and the cost of performing or undertaking activities involved in creating it (production cost) determines profit (Porter, 2008).

Barney (1995) supports that the source of competitive advantage for a firm can depend to a large extend on environmental opportunities and threats, its internal strengths, and threats. He advises that firms who use their internal strengths to explore environmental threats while avoiding or attempting to find solutions for internal weaknesses gain competitive advantage than other firms.

Least developed economies like Lesotho, which are surrounded by the giant economies like South Africa can benefit a lot from focusing mainly on components manufactures (Roos, 2014). These are normally labour intensive and require affordable facilities and infrastructure. The following finished components can be supplied by the Lesotho firms.

- Car seat covers
- Wire harnessing
- Metal supplies (seat frames, seat structures etc)
- Form and carpets
- Plastic parts
- Rubber injections
- Leather tanning and fabric companies
- Side mirrors
- Door panels
- Headliners
- Dashboard
- Silencers
- Stitched leather seats
- Tyres
- Transmission shifts/cranks

If Lesotho can slowly integrate into supplying the South African Automotive Industry with these components, it would finally become the Components Automotive Hub of the region. This study will mainly focus on only one major component, production of car seat covers.

2.3.1 Overview of the Global Automotive Value Chain

According to Lamprecht (2014), North American Free Trade Area (NAFTA), Western Europe, Japan, Asia Pacific, Eastern Europe, South America and South Africa are the global leaders of automotive production. He further mentions that the automotive industry performed well in 2013. There were 87, 3 million vehicles produced. The automotive industry has a nested structure. It is neither fully global nor is it tied to the narrow geography of nation states or specific localities as is the case for some cultural or service industries. It consists of a set of linked, specialised cluster. Automakers have to understand their market and consumer preferences. This is normally linked or influenced by consumer locations, which determines their taste and preferences. This therefore, creates certain specific characteristics that suit the particular market (Lamprecht 2014). This requires automakers to change the designs of their vehicles to conform to consumer specifications in that particular market.
Sturgeon and Biesebroeck (2014) indicate that there seems to be a great transition in the automotive industry. The industry is shifting to a more integrated global industry. Before the 1980s, it was more of a series of discrete national industries. However, this transition is not only experienced in the automotive industry alone. It seems to be a new production and trade pattern that happens across all the industries of the economy especially manufacturing sector (Sturgeon and Biesebroeck, 2014). As the world’s largest manufacturing sector, the automotive industry accounts for approximately 15% of global gross domestic product (OICA, 2005). Unsurprisingly, given its scale of operation, the automotive industry is one of the largest employment sectors globally.

Lamprecht (2014) contends that, the last ten years have witnessed the increased industry consolidation through mergers, acquisitions and alliances. This trend towards global integration has been propelled by lower trade barriers (in line with individual countries’ WTO commitments), the increasing dominance of regional trade blocs, as well as the increasing global strategies of the major international firms that dominate the industry. The share of developing economies in global production and exports has increased substantially due to expanding markets in these developing regions, as well as the drive by global automotive firms to source both assembled vehicles and components from these cheaper locations. This is supported by Lamprecht (2014) who reiterates that due to lower costs manufacturing and a huge growth potential, developing countries are becoming important focus area. In Europe, the automotive sector is also the main contributor to national economies’ GDP. While undertaking a study in Poland automotive value chains, the researcher found out that the automotive sector is the second largest contributor to economic growth with 892 companies in 2013 of which only 273 have foreign shareholding. The major OEMs are categorized as:

- Bus Producers
- Heavy Truck Producers
- Passenger
- Light Commercial Vehicles

Poland is also the 3rd largest producers on Buses. Amongst its OEMs, there is also Lear Corporation and Johnsons’ Control which are also in South Africa. To improve their competitiveness, Poland invests constantly on Research and Development activities in the automotive sector.
The global industry is affected by factors such as social contributions, taxes, currency volatility, market competition, difficulty in passing raw material costs increases to consumers. It is therefore, imperative for a country to improve its global competitiveness.

The history on automotive sector suggests that the industry was hard hit by the global recession of 2008. Sturgeon and Biesbroeck (2008) in their study on challenges affecting the global automotive industry, argue that the global financial crisis that began in the summer of 2008 severely deepened an ongoing global economic recession that had been underway since early in the year. At the same time, a combination of continued high demand (e.g., from China) and investor speculation had driven commodity prices to unprecedented levels. According to Lamprecht (2009), the SA based OEMs are fully integrated into the global networks of OEMs' parent companies abroad, they are therefore also affected by the global development affecting their parent companies. They were affected by the global financial recession that affected its parent companies in 2008/9.

**2.3.1.1 IMPLICATION OF GVCs AND TRADE POLICY**

In order for a country to benefit on GVCs, it requires good planning and structured implementation, the benefits cannot automatically accrue, and the policies that will complement these efforts are also necessary because they will support a drive towards investment in GVCs. It is only through development of these supporting policies and programmes that GVCs can achieve positive effects on growth and employment of a country. Cattaneo et al., (2013) in their study, reiterate that while countries start participating in GVCs, the relevant policies such as trade, competitiveness and development policies need to be reviewed and improved to accommodate the needs and requirements of new participation in global trade. They should be reshaped to be able to seize opportunities presented and avoid the risks and competition associated with greater participation in global value chains. Further to this, it is necessary for countries to note that the process of GVC-induced growth automatically requires the reallocation of resources away from less productive activities to more productive and most competitive ones in order to obtain maximum and efficient production level.

Once a country engages itself in global value chains, its trade policies become more interdependent. They have more immediate and more pervasive effects. However, this
interdependence is not new. WTO has in a long time been engaged in efforts to manage the consequences of one country for another country’s policies. It has always been a central part of trade policy and key issue on trade negotiations for a very long time (Cattaneo et al, 2013). That is why regional integration efforts are relevant in an effort to harmonize policies that affect the same regions. Nevertheless, with emergence of the new trade century issues, the degree and the ways in which global value chains affect trade policy is high OECD, UNCTAD, WTO (2013). They emerge with a higher cost of protectionism in the context of GVCs.

After more than half a century of trade liberalization, nominal tariffs on manufactured products in developed economies are generally low. Although the case is somewhat more mixed for developing countries, the general trend has also been towards lower tariffs. But in a world dominated by GVCs the cost of protection can be higher than generally understood: tariffs are cumulative when intermediate inputs are traded across borders multiple times (unless particular processing regimes such as duty drawback systems are in place).

Downstream firms pay tariffs on their imported inputs and then face tariffs again on the full value of their exports, including on those same inputs. Tariffs can add up to a significant level by the time the finished good reaches customers, dampening demand and affecting production and investment at all stages of a value chain (Cattaneo et al., 2013). Nominal duties on gross exports are an incomplete measure of effective tariff barriers. The effective burden for the exporter is better measured by tariffs on the domestic value added of exports. This new trend means, when developing their trade policies, the world economies should take these issues into consideration.

Nations needs improved trade facilitation measures in order to increase participation in global production networks and global markets. There is more emphasis on improvement of trade facilitation measures due to emergence of GVCs as this means multiple border crossings for the components as they go through stages of value addition from one country to another. That is, same goods cross borders many times. First as inputs for use in the production of components by a country, it further goes out as export to another country as an input into a finished product. This country will further export it to the buyer as a complete finished product for consumption or for further retail/sale by the buying country. As a result of this new trade pattern, improvement of trade facilitation and border management is necessary to ensure fast and efficient customs and port procedures. This will result into smooth
operation of supply chains. Most firms, which are mostly across the borders in different countries, work on a strict basis to deliver their goods on time for further production in other countries. This means that in order to compete globally, firms need to maintain lean inventories and still respond quickly to demand. However, this is not possible when their intermediate inputs suffer unpredictable delays at the border. For the example, in SA automotive industry, both components manufacturers and vehicle assembly plants use the Just in Time (JIT) system, which requires a delivery of goods according to the set timelines. If this is not achieved, the company is penalized as it costs the receiving company lots of money to rectify the problem over the long value and supply chain. The 2013 month-long strike in the automotive industry is SA resulted in loss of millions of Rands. This means that a country where inputs can be imported and exported within a quick and reliable time frame is a more attractive location for foreign firms seeking to outsource production stages.

2.3.1.2 GLOBALIZATION AND INTERNATIONAL TRADE

Globalization is the new way of life for all businesses. Firms are all somehow affected by this new era phenomena. They are either affected directly or indirectly. The new trading pattern absorbs firms into the global system, either by choice or not. For those who ignore this new pattern, there is a harsh competition from global players. Due to this, even SMMEs need to pull efforts to participate competitively in this global system.

Globalization has given rise to a new set of international competition issues. In order to bit this competition, the countries need to better understand the global organization of industries and how countries perform within these industries, then develop programmes and strategies that will address such global competition. In particular, the operations of global value chains highlight how the new patterns of international trade, production and employment that shape prospects for development and competitiveness may be hampered by anti-competitive practices if competition authorities are not vigilant OECD, UNCTAD, WTO (2013). The globalization of supply chains calls for a more coherent view of trade and trade-related policies. The fragmentation of production has created potential new opportunities for developing economies and for small and medium-sized firms to access global markets as components or services suppliers, without having to build the entire value chain of a product (OECD, 2013).

International trade economists have developed a new theoretical framework, the “task approach to trade”, which introduces concepts prevalent in supply chain management into
traditionally trade models. In doing so, they have opened up the black box of production by modelling the production process as a sequence of stages, or tasks that are combined to produce a final good. As these tasks become more geographically separable, companies have the incentive to slice up their value chain and relocate certain tasks to lower cost locations, leading to the emergence of GVCs. This “task approach to trade” moves focus from the traditional approach to trade where production of goods used to happen “in-house” from one factory located in one country, these goods were then exported to other countries for consumption. The new approach has fragmented production processes conducted by a team of firms spread across countries, this is global value chains. OECD, UNCTAD, WTO (2013) reiterates that global value chains are changing the patterns and structure of international trade.

The trade blocs agreements at both multilateral and regional level need to accommodate the GVCs when making plans on trade topics for negotiations and when making their decisions. When making these plans and decisions, the trading blocs should appreciate that the goods and services are now made from different and various countries. Production processes for one product no longer takes place from scratch to finish in one country but from various countries along different value addition levels. As such, domestic firms depend on reliable access to imports of world class goods and services inputs (small components of finished products) in order to improve their productivity and their competitiveness. To do this successfully, the domestic firms require support of relevant policies and these policies can no longer be done at national level only, but requires collaboration of more countries.

2.3.2African Automotive Overview

While many markets in Africa still lag behind South Africa in terms of the challenges, this does not mean the automotive industry does not have a bright future. There is an opportunity for both manufacturers and suppliers to develop a competitive components industry that will supply the automotive sector (Whitefield, 2014). For instance, the Nigerian economy is growing at an alarming rate, with recent announcement that its Gross Domestic Product (GDP) has surpassed that of South Africa (The Economist, 2014). The Automotive industry in Nigeria is growing and they have recently developed a new policy. The Nigerian Automotive Industry Development Plan (NAIDP) is a 10 year strategic framework that incorporates measures and incentives that have been designed to revive the nation’s vehicle and auto-parts manufacturing industries (Nigeria Automotive Council, 2014). Following this policy, contracts have been
signed with Nissan, Kia and Hyundai to start assembly plants in Nigeria and there are plans to establish more assembly plants in various parts of the country.

These are focused on five key elements:

- Industrial infrastructure
- Market developments
- Standards
- Investment promotion
- Skills development

Recent studies show that in 2012 alone, Nigeria spent US$3.451 billion on importing new and used vehicles into the country. Nigeria has a potential market of one million plus vehicles a year and strong potential exists for regional exports into the West and Central African markets (Nigeria Auto Summit, 2014).

On the other hand, other African countries are also making efforts to invest in the lucrative automotive industry. While South Africa is traditionally the leader in Africa in automotive industry performance and produces more than half a million annually of all types of automobiles, countries like Nigeria as mentioned earlier, Morocco, Kenya and Egypt are fast on SA toes. Kenya’s automotive industry is primarily involved in assembly, retail and distribution of motor vehicles. A number of assembly plants operate in the country, and they are currently attempting to completely build own vehicles. However, there is high competition for Kenyan manufacturers from second hand cars imported from Japan and the United Arab Emirates.

In Egypt, the automotive industry is growing fast, with the first vehicle produced in the 1960s. Currently the big brands like General Motors, BMW, Nissan, Hyundai, and Daewoo have assembly plants in Egypt. Currently, Egyptian automotive industry boasts at least 26 assembly lines and manufactures around 100,000 passenger cars annually, light commercial vehicles, trucks, and buses, as well as 300 factories that produce most automotive components (IDA’s Vision for the Automotive Industry Report, year). In 2004, the industry expanded exponentially and realized production of both assembled vehicles and components.

Their total production market consisted of 49,335 vehicles in 2004. In 2010, production increased to 116,683 vehicles, a 136% increase. Thereafter, the country experienced political
challenges that reduced their production by 31% in 2012. According to 2013 records, Egypt was the third largest car-producing market in Africa, after South Africa and Morocco.

As recent as 2012, Morocco secured investment with Renault. The new factory has an auto assembly capability of nearly 400,000 vehicles annually. It produces cars for the European market. Before 2012, the only other assembly plant in Morocco was the smaller Renault plant.

2.3.3 Overview of South African Automotive Industry

South Africa’s Automotive Industry is one of the highest ranking in automotive industry performance. Its sales as well as indicators relating to export, employment and capital investment all reflect robust recent performance as well as increasing contribution to the domestic economy. This is a producer driven value chain and comprised of three broad market segments, the Original Equipment Manufacturers (OEM), Original Equipment Suppliers (OES) and the Independent Aftermath (Moodley, 2002). The industry plays a great role in the South African economy. He further advises that the South African motor industry value chain consists of the manufacture sector (both OEMs for assembly of products to full vehicles as well as components manufacturing), distribution companies, there is also the aftermath that focus on example, servicing and maintenance of motor vehicles. On all the manufacturing exports from South Africa, the automotive sector alone accounts for about 10%. This is a significant contribution to exports and the South African economy depends a lot on it. Further to this, the annual production in 2007 was 535 000 vehicles. In terms of global vehicle production, somewhere in the region of 73-million units in 2007, South Africa can be regarded as a minor contributor.

There are still other automotive supplier parks in other SA regions/provinces. However, the two main ones are mainly located in two provinces, the Eastern Cape and Gauteng. The other supplier parks and clusters are in Durban and Western Cape (AIDC CE, 2015). The investors who open production plants in South Africa are targeting the low production costs.

There is a good access to new markets because SA government has signed various trade agreements such as with the European Union (EU) and the Southern African Development Community (SADC) free trade area (FTA). Due to the policy designed to support the South African automotive industry, Motor Industry Development Programme (MIDP), the industry
has shown massive success and potential to grow further. According to Meyn (2004), in 1994, the auto industry doubled in size as a result of the support from the MIDP.

In January 2013, the Automotive Production and Development Programme (APDP) succeeded the MIDP. The main aim of the new industry policy is to stimulate the expansion of local production to 1.2 million vehicles a year by 2020. At the same time, it also aims to significantly increase local content of all products. South Africa further, focuses on building existing exports and exploring new opportunities. This is because, due to small domestic market, it is not easy for the South African automotive industry to generate sufficient economies of scale that would increase its global competitiveness (Lamprecht, 2013).

2.3.3.1 Comparative advantages of the South African automotive industry
The comparative advantages of South African automotive industry are (AIEC Export Manual, 2013):

- Competitive industrial base
- Good infrastructure
- First class production tests
- Emerging market cost advantages
- Flexible production capacity
- Availability of raw material
- Low tool cost
- Official support (MIDP and APDP)

2.3.3.2 Transition from MIDP to APDP
Literature, which shows that in 1995, the new policy, Motor Industry Development Programme (MIDP) that supported the South African Automotive industry was established. According to DTI (2003), the main objective of the MIDP was to develop and capacitate South Africa’s automotive industry into an internationally competitive industry. The aim is to grow the industry and capacitate it to provide high quality vehicles at reasonable prices. Further to this, MIDP aims to serve vehicles and components to both local and international markets. This would further assist the South African economy to create sustainable employment as a result of increases in production volumes. The MIDP was aimed at increasing production and achieving improved sectoral trade balance, thereby making a greater contribution to the economic growth of the country. For light commercial vehicles, the import tariffs are pegged
at 25% and at 20% for components that are used by vehicles manufacturers. This was effective from 2012.

To achieve these objectives, MIDP’s main focus was provision of duty rebates, incentives and support to increase exports. Through the programme, duties and tariffs were reduced over time. The MIDP was said to be the success of the South African Automotive Industry which positioned the industry well within the global competition (NAACAM, 2013). Overtime, a number of challenges were still eminent and the programme was concluded in 2012. However, in order to sustain and expand the automotive industry and its contribution to the South African economy beyond 2012, support would still be needed. Therefore, on 1st January, 2013, the new improved automotive policy, Automotive Production and Development Programme (APDP) which is more market neutral and World Trade Organization (WTO) compliant was developed (DTI, 2013). APDP’s objective is to ensure that the model used to support the automotive industry in SA is aligned with WTO’s agreement on subsidies and countervailing measures (“The SCM agreement”) under the 1994 General Agreement on Tariffs and Trade. Under the SCM agreement, the MIDP was deemed to be a prohibited subsidy. It is contingent on export performance and is also contingent upon the use of domestic resources over imported goods. These are called red light subsidies because they are against the WTO’s objective of discouraging a most-favored-nation treatment which encourages members to treat all WTO members in a non-discriminatory manner.

The APDP design has evolved from an export based incentive to a local manufacturing incentive, regardless of whether the motor vehicles are sold locally or abroad. It is believed to be more WTO compliant and it also accommodates other SACU countries in regard to reviewed local content requirements. APDP supports production volumes in South African automotive industry. Under this program, OEMs and component manufacturers are provided tax rebate certificates (provided they have applied for an Eligible Production Certificate and have met all the conditions of the APDP programme). A significant incentive under APDP for both OEMs and component manufacturers is the Production Rebate Credit Certificate (PRCC) which replaced the Import Rebate Credit Certificate (IRCC) from the MIDP. However, recent literature suggests that the duty rebate and incentive system within the APDP is flawed as it protects vehicle manufacturers but not component manufacturers. According to Lello (2015), it did little to boost the localization of parts on locally assembled vehicles, but instead saw South Africa’s vehicle manufacturers import more and more vehicles and parts. There is a clear perception by government that the APDP programme needs to be modified/enhanced. There is
a perception that the PRCC program is overly generous and that surplus credit certificates are being issued, which ends up serving to subsidize the import of vehicles and components from overseas (as the certificates are used to rebate the customs duties on these imports). According to the Motor Industry Council, currently there is an overhang of over 13 billion rand worth of unused PRCCs and IRCCs as of the end of 2014. This significant amount of unused certificates indicates that the programme needs tweaking. This is the main programme/policy currently supporting the automotive industry in South Africa. The overall objectives of the APDP are to significantly grow vehicle production in South Africa to attain the targeted 1.2 million vehicle production. To increase local value addition in the automotive supply chain as well as to increase employment (AIDC: 2013).

To achieve the above objectives, the APDP has four pillars:

- Import duty

Import tariffs pegged at 25% for light commercial vehicles and pegged at 20% for components used by vehicle manufacturers from 2012

- Vehicle Assembly Allowance (VAA)

In 2013, the new local assembly allowance was introduced. It allows manufacturers with annual plant volumes of 50 000 units or more to import 20% of their components duty free

- Production Incentive (PI)

To raise the production, the production incentive was introduced in 2013. This was introduced in the form of duty credit. Benefit of 55%, is applied according to a formula and will not discriminate against local or export use

- Automotive Investment Scheme (AIS)

A direct grant that supports investment in new plants and machinery was introduced in 2013. This is automotive investment allowance. It amounts to 20% of the project value over three years.

With introduction of APDP, the focus has shifted from an export view to one focusing on high volume local production. The MIDP seemed to benefit mostly OEMs as they had direct access to investment incentives; APDP has tried to incorporate the components manufacturers as well and they enjoy the same benefits. APDP incentivizes production of both vehicles and
components whether they are for export or local consumption. APDP drives towards localization of value addition (NAACAM, 2013).

However, in trying to achieve these objectives, a number of challenges are still being met, mainly in relation to lack of competitiveness. Automotive Industry’s lack of competitiveness is due to low level of production & high complexity production leading to the importation of sub components and materials. There are high costs of production, low economies of scale, compared to low cost countries which include high costs of electricity and high cost of labour etc. The low levels of productivity also affect the industry competitiveness (AIEC, 2014).

2.3.3.3 South African Automotive components competitiveness

While South Africa aims to increase its production units, the domestic market is not large enough to allow it to generate economies of scale that would improve its competitiveness. South Africa is building on existing exports and exploring new ones. Further to this, to drive the South African Competitiveness of the automotive components manufactures, the new Automotive Supply Chain Competitiveness Initiative (ASCCI) has been established. This is a national structure to coordinate automotive supply chain development activities (Lamprecht, 2014). It has identified/developed three (3) main strategic areas of focus: (1) To improve supplier capabilities by increasing supplier Manufacturing Value Add (MVA) in support of producing an annual 1.2 million vehicles by 2020 (2) Deepen Localization by enabling local supply chain capabilities and increasing local content (3) Strategic insights by increasing employment and local content. Its main responsibilities are to set the strategic direction for industry support activities, coordinate and align activities in line with the defined strategic direction.

Its executive committee is made up of all industry stakeholders including NUMSA to represent labourers/employees in the industry, NAAMSA to represent the OEMs, the DTI for policy and regulatory issues and NAACAM to represent the automotive components manufacturers. The committee engages from time to time with the government ministries for constructive interchanging of innovative ideas. There is also a regular exchange between the representatives of OEMs and the components manufactures. While improving the South African automotive competitiveness, the initiative is also expected to have positive economic benefits including, employment creation, enabling domestic supplier capabilities, and increase in value addition (Lamprecht, 2014).
2.3.3.4 South African Automotive Clusters (by Province)

South African automotive industry is mostly concentrated in three of its provinces, namely Gauteng which houses three OEMs and the most suppliers, Eastern Cape and Kwazulu Natal with some promising developments in Western Cape and North West Province. These clusters are nearest to the suppliers (AIDCEC, 2014).

The following table shows automotive statistics in each of the three main automotive centres in South Africa

**TABLE 1: SA AUTOMOTIVE CLUSTERS BY PROVINCE**

<table>
<thead>
<tr>
<th>KEY FEATURES</th>
<th>GAUTENG</th>
<th>EASTERN CAPE</th>
<th>KWAZULU NATAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Johannesburg</td>
<td>Bisho</td>
<td>Mzunduzi (Pietermaritzburg)</td>
</tr>
<tr>
<td>Population</td>
<td>12.73 million (24%)</td>
<td>6.62 million (12.5%)</td>
<td>10.46 million (19.7%)</td>
</tr>
<tr>
<td>GDP</td>
<td>33.5%</td>
<td>7.6%</td>
<td>16.1%</td>
</tr>
<tr>
<td>OEMs</td>
<td>BMW SA, Renault SA, Ford Motor Company of Southern Africa</td>
<td>VW Group, Mercedes Benz SA, General Motors Southern Africa, Ford Motor Company engine plant</td>
<td>Toyota SA Motors</td>
</tr>
<tr>
<td>Medium, heavy, extra heavy, commercial vehicles and bus companies</td>
<td>Associated Motor Holdings (AMH), Babcork, Fiat Group, Iveco SA, JMC, MAN Truck and Bus, NC 2 Trucks Southern Africa, Peugeot Citroen, Powerstar SA, Renault Trucks, Scania, Tata Motors, UD Trucks, VDL Bus &amp; Coach, Volvo Trucks and Buses</td>
<td>FAW Trucks, General Motors/Isuzu, Mercedez Benz SA, and VW Group SA</td>
<td>Bell Equipment Co SA, Hino, MAN Truck &amp; Bus SA and Toyota SA Motors</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Number of automotive Components companies</td>
<td>150</td>
<td>100</td>
<td>80</td>
</tr>
<tr>
<td>Motor Vehicles parc as % OF SA total vehicle parc of 11, 01 million vehicles</td>
<td>38,81%</td>
<td>6,67%</td>
<td>13,53%</td>
</tr>
<tr>
<td>Passenger car sales as % of total 2013 passenger car sales of 450,561 units</td>
<td>37,4%</td>
<td>3,7%</td>
<td>12,8%</td>
</tr>
<tr>
<td>LCV sales as % of total 2013 LCV of 169,262 units</td>
<td>33,2%</td>
<td>5,1%</td>
<td>12,5%</td>
</tr>
</tbody>
</table>
Table 1 above shows the SA Automotive clusters by region, the individual regional performance in percentage contribution to GDP. Gauteng, though the smallest province, is the most developed with the largest population of about 12.73 million, compared to 6.62 million and 10.46 million in Eastern Cape and Kwazulu Natal respectively. Gauteng has the largest contribution to SA Gross Domestic Product (GDP) at 33.5%. There are 230 components manufactures in South Africa that supply the OEMs of which some produce car seat covers. Out of this number, 150 Components manufacturers are based in Gauteng, while 100 and 80 are in Eastern Cape and Kwazulu Natal.

### Impact of Strikes on South African Automotive Sector

The South African automotive industry has recently been hard hit by the labour instabilities resulting in endless strikes which are also influenced by the highly politicized labour unions (Zyl, 2013). This has a lot of negative implications to the industry and the national economy, especially regarding that the industry is one of the best performing manufacturing sector. For instance, in 2013 alone, there was a country wide strike of about 31, 000 NUMSA members. The members demanded a 14% wage increase while the employers wanted to settle for 10% increase. 6000 workers employed in components firms that supply an East London based Mercedes Benz SA (MBSA) and Port Elizabeth based General Motors, VW, and Ford downed tools. Bosch (2014), Foxtech-Ikwezi, which supplies MBSA with aluminium automotive parts, advised that the strike cost the company 10% loss in revenue. The company claimed that Foxtech-Ikwezi lost R150, 000.00 for every day of strike as the company works on Just in Time system. This was a three weeks long strike by the National Union of Metal Workers (NUMSA).
Siya (2014) advises that in the same manner in August 2014, 900 workers from Lear Corporation SA went on a month long strike due to complaints about salary rates which NUMSA claimed were reduced from R47.08 per hour to R22.65 per hour. On the other hand, NUMSA complained that Lear Corporation excluded them from hiring for c-class parts. According to Zyl (2013), the aggregate production loss by end of third week when some workers were beginning to resume duties was estimated at 45,000 vehicles which translates to R20 billion. He further advises that the loss has far more economic benefits to the whole SA nation as it results in lower economic growth, lower domestic and export production and sales, reduced industry profitability, loss of income to workers, loss of revenue, lower FDI to SA, loss of employment with a possible loss in future export contracts due to loss of reliability status of SA. This rising incidence of strikes in SA is likely to impact on future ultimate decision by both OEMs and components manufacture on whether to invest or not in SA. It will damage SA as a reliable supplier to international exports markets. The highly politicized trade unions results in a turbulent industrial relations environment that seem to undermine the interest of the economy (Bosch, 2014).

2.3.3.6 Key Stakeholders in South African Automotive industry
The South African automotive industry is one of the best performing sectors in South African economy. It contributes almost 30% to the national GDP and employed almost 74,000 people in 2013. It is one of the highly incentivized and protected industries which enjoy a lot of government support to continuously increase its competitiveness (AIEC Export Manual, 2014). To achieve this, there are a number of key stakeholders to support the industry. These stakeholders range from government departments such as IDC, DTI, AIDC, ITAC, SARS, AIEC and industry associations such as NAACAM, NAAMSA and NUMSA as well as trade unionist.

2.3.3.7 Trade Balance for SA Automotive Industry
The Automotive Industry is the best performing sector in South Africa. The tables below depict imports and exports of automotive industry.

Literature shows that, in regard to imports and exports, currency fluctuations have impact on automotive industry operations. A weaker currency implies a higher cost of importing, while on the other side, creates opportunities for exporters. Fortunately, South African Rand is one of the actively traded emerging market currencies. The decline in currency was not only experienced by South Africa, but other emerging economies as well, hence South Africa did
not benefit on the export trade as they (other emerging economies) also experienced export competitiveness due to depreciation of their currencies. The forecast had anticipated higher export in 2013. However, the national industrial strike in 2013 affected the exports for both vehicles and components leading to this negative trade balance.

**TABLE 2: MIDP TRADE BALANCE FOR AUTOMOTIVE INDUSTRY (2010 - 2012)**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Imports (R billion)</th>
<th>Exports (R billion)</th>
<th>Net Forex usage (R billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>102.2</td>
<td>79.3</td>
<td>(22.9)</td>
</tr>
<tr>
<td>2011</td>
<td>122.1</td>
<td>90.5</td>
<td>(31.6)</td>
</tr>
<tr>
<td>2012</td>
<td>137.2</td>
<td>94.9</td>
<td>(42.3)</td>
</tr>
</tbody>
</table>

Source: Automotive Export Manual (revised to include BNLS country trade data)

Under the MIDP SA imports were R102.2 billion in 2010, while exports were R79.3 billion, resulting in a negative trade balance of R22.9 billion.

**TABLE 3: APDP TRADE BALANCE FOR AUTOMOTIVE INDUSTRY 2013**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Import (R billion)</th>
<th>Exports (R billion)</th>
<th>Net forex usage (R billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>126.7</td>
<td>102.7</td>
<td>(24.0)</td>
</tr>
<tr>
<td>EU</td>
<td>60.6</td>
<td>35.1</td>
<td>(25.5)</td>
</tr>
<tr>
<td>NAFTA</td>
<td>7.5</td>
<td>19.1</td>
<td>11.6</td>
</tr>
<tr>
<td>AFRICA (incl. SADC)</td>
<td>0.5</td>
<td>30.2</td>
<td>29.7</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>3.8</td>
<td>2.0</td>
<td>(1.8)</td>
</tr>
<tr>
<td>OTHER REGIONS</td>
<td>54.3</td>
<td>16.3</td>
<td>(38.0)</td>
</tr>
</tbody>
</table>

| 2013 | 126.7 | 102.7 | (24.0) |
| Vehicles | 63.6 | 60.5 | (3.1) |
| Automotive Components | 63.1 | 42.2 | (20.9) |

Source: Automotive Export Manual 2014)
From Table 3 above, it is noted that the industry’s export value under the APDP in 2013 amounted to R102.7 billion, which comprised 11.1% of total South African exports of R927,36, while the automotive industry’s imports of R126,7 billion under the APDP comprised 12.7% of total South African imports of R998, 28 billion. However, there was a trade deficit of R24.0 billion in the first year of APDP. This was mainly due to depreciation of over 20% Rand against other currencies as well as ongoing weakness of the EU automotive markets, which is South Africa’s main trading partner of automotive industry.

2.3.4 Overview of Lesotho Automotive Components

As a small Least Developed Country (LDC) with abundant labour force at competitive labor wages, Lesotho also wants to claim its share of the regional automotive value chains and supply the industry with small components of intermediate goods. The automotive sector in Lesotho is fairly new and has been almost non-existent in the past few years. Lesotho currently has only two Automotive Components companies specializing in manufacture of leather car-seat covers, Johnson’s Control and Automotive Leather Company (ALC). This Automotive Industry in Lesotho still needs to be capacitated for Lesotho to make its mark in the region. Lesotho will use South African Automotive Industry as an entry point to the regional/global value chains.

The South African automotive and components industry is growing rapidly and accounts for about 10% of South Africa's manufacturing exports. Vehicle manufacturers such as BMW, Ford, Volkswagen, Daimler-Chrysler and Toyota have production plants in RSA (Automotive Export Manual, 2013). There are also potential opportunities in the production of materials such as automotive steel and components. With the South African Automotive Strategy to increase its production volumes to 1.2 million vehicles per annum by 2020, increase its local content under Automotive Production and Development Programme (APDP) and substantially diversify and deepen the component supply chain, Lesotho needs to use this opportunity to penetrate the industry, especially as it qualifies under the APDP local content requirement. While the South African Automotive Industry is highly incentivized under APDP programme, to encourage movement of investment between the two countries, Lesotho needs to improve its productivity and cost efficiencies. This efficiency can be achieved in many forms to ensure that what is enjoyed as a direct benefit/incentive in South Africa can be offset by the production cost efficiencies in Lesotho. The following are identified as such benefits:
- The Automotive components manufacturing is a high labour intensive sector. Hence, availability/supply of very productive labour at competitive wage rates is a benefit for Lesotho component manufacturers.

- Labour stability is of utmost importance. The Automotive Industry is very sensitive and easily affected by inefficiencies as it uses the Just-In-Time system (Bosch, 2013). The minimal strikes and conservative approach of labour unions in Lesotho act as great incentives for the component manufactures who serve South African assembly plants.

Attracting investment in this sector will bring diversification to the current Lesotho industry, which is dominated by the manufacturing sector specifically the textile and garment industry. Being a high labour intensive industry, the automotive components industry also has potential to employ a significant number of skilled and semi-skilled workers. This is evidenced in South Africa where it has employed at least 70,000 people (AIEC Export Manual, 2014).

While the automotive component manufacture is diversified and Lesotho has potential to manufacture majority of such, this research will focus on manufacture of leather seat covers as a pilot phase to test the market response. The following phases will focus on wire harnessing followed by other components such as:

- Floor mats
- Side mirrors
- Window panels

Roos (2014) advises that automotive industry has the potential to impact on a number of related businesses and national economies as a whole. Developing a single automotive firm results in a lot of benefits as it affect many support industries such as logistics companies, business services, accounting firms, etc. On the contrary, the consequences of losing the industry are huge and 1000 jobs lost in automotive generates total job losses of around 1400 from retail, business services, construction, hotel and restaurant, transportation etc.

All the proposed activities will qualify for the current Lesotho incentive package as they are within manufacturing, processing and assembly. The industry will also benefit in terms of markets access enjoyed by Lesotho at concessionary rates. Low manufacturing tax at 10% corporate tax on manufacturing profits, competitive wage rates at Minimum of R1000.00 for leather manufacturing, ideal geographic location, which is close to all existing RSA leather
seat manufacturers and automobile manufacturing plants in the RSA (e.g. it is about 600km from East London (where Daimler-Chrysler/Mercedes Benz is located); about 750km from Port Elizabeth (Volkswagen & General Motors/Delta); about 550km from Pretoria/Johannesburg (BMW is located).

2.3.4.1 SWOT ANALYSIS

The strengths, weaknesses, opportunities and threats for the Lesotho automotive industry are analyzed as follows:

**Strengths**

- International trade arrangements/duty free arrangements (AGOA, SADC, SACU-EU)
- Labour availability and competitive wage rates
- Literate population at 84% literacy level
- Attractive Tax structure at 10% on manufacturing profit
- Exchange rate linked at one to one with South Africa (Common Monetary Area)
- Stable labour Force (minimal strikes and limited Unionists influence)
- Stable Electricity supply (potential improvement with the LHWP phase II hydropower)
- Stable water supply
- Political stable country
- Floor jobskills availability
- Under APDP, Lesotho qualifies under local content benefit
- Proximity to SA OEMs

**Weaknesses**

- No Capital incentives
- No base raw material for automotive
- No high quality automotive research facilities in local universities
- Dislocation from major export markets (except SA), and the associated increased logistics costs associated with getting product to major export markets
- Limited sector-specific management skills
• Limited industrial infrastructure (Warehouses, industrial buildings, roads,)
• Challenges with exit and entrance procedures at customs and border
• Limited automotive technical skills

**Opportunities**

- Market access via international trade arrangements (SACU, USA, SADC, EU)
- Establish technical training centers for tool makers, electricians, mechanical and electrical engineering, process engineering automotive engineers
- To become automotive components base, as local content becomes more important for OEM manufacturers,
- Qualify for APDP local content in South Africa.

**Threats**

- Over-capacity in low cost countries (Thailand, Indonesia, China)
- A defensive response and unwillingness to develop a complimentary automotive development strategy by South African counterparts

2.3.4.2 **KEY ENABLERS**

To achieve the growth aspirations in the automotive components industry for Lesotho, investment in the following strategic areas is essential:

2.3.4.1.1 **Stakeholder involvement and management**

Identifying and managing all the relevant stakeholders will assist in increasing support for development of Lesotho automotive development.

2.3.4.1.2 **Infrastructure Development**

Investment in the necessary infrastructure is required to support the industry. It is therefore, crucial for Lesotho through agencies like LNDC to identify and evaluate the necessary sites/lands earmarked for future development.

Construction of roads for easy access and factory shells for production or assembly plants.

Development of Automotive Cluster at Ha Belo (a newly identified area earmarked for automotive development), with serviced sites, roads, and factory shells and other serviced sites
in Lesotho. Investing to improve utility facilities to support the sector such as energy, telecommunications, and water.

2.3.4.1.3 Skills Development

To position itself well within the automotive value chain, a robust Skills Development Programme is necessary to improve Lesotho’s competitiveness within the region. While there are graduates in engineering and other supporting sectors, Lesotho needs to develop sector-specific incubation programmes that speak to the needs of the industry. A collaboration and participation of all relevant stakeholders such as government departments and institutions of higher learning to develop a long-term plan to support the industry through design of curriculum that responds to needs of the industry is necessary.

2.3.4.1.4 Management of Lesotho–RSA Bilateral relations

LNDC should facilitate good relations with its South African counterparts to support a Regional Approach to Automotive Development Plan. The Least Developed Country (LDC) status as well as its geographical location, requires Lesotho to develop strong relations with South African Automotive Industry to ensure harmonious relocation and expansion of investment projects between the two countries. This should be achieved through involvement of all key stakeholders to support keeping the investment within the region. The Joint Bilateral Commission of Cooperation (JBCC) can be used as a good platform/reference to carry this initiative forward.

2.3.4.1.5 Investment in R & D

LNDC, together with other stakeholders and the local universities should invest in an aggressive and long term Research and Development Programme to support the industry. This is to ensure that the Lesotho industry responds quickly to any changes in the industry in order to develop supporting programmes and policies in time.

2.4 Empirical Literature

Empirical literature shows that for a country to successfully invest in development of a new sector, there is a need for investment in R&D, skills, infrastructure and engagement of relevant stakeholders. It further supports the new trade phenomena of GVC and fragmented production process as the new way for developing economies to penetrate the world markets. The automotive industry is said to be one of the most productive and beneficial sectors to the
According to the National Association of Automobile Manufacturers of South Africa (NAAMSA), the industry had expected at least 7% growth rate in 2010 in new vehicle sales. However, the sales exceed this expected initial percentage to reach up to 24%. The industry had experienced very low levels of growth in the three (3) previous years. The industry was not performing well in the year 2006/7 as well as in 2007/08. In the period 2006/7, the new vehicle sales dropped by 5.1%, this was further followed by a decline of 21.1% in 2007/8. The former was mainly due to the global economic recession of 2008/9 as the impact was already beginning to be felt by the industry. Sales dropped by an all-time low of 25.9% (Lamprecht, 2013).

Source: NAACAM industry statistics
Vehicle manufacturers with production plants in South Africa are BMW, Ford, Volkswagen, Daimler-Chrysler, Toyota and Renault, Ford and Mercedes Benz. Large component manufacturers with bases in the country are Arvin Exhaust, Bloxwitch, Corning and Senior Flexonics, Automotive Leather Company (ALC), Johnsons Control and Lear Corporation. There are at least 200 automotive component manufacturers in South Africa. These components manufacturers all target to supply the few OEMS with components as well as to support export market. There are also more than 150 others that supply the industry on a non-exclusive basis. In 2006 alone, South Africa exported R30.3 billion worth of auto components. This shows a good performance and great growth potential both from historical background and the current performance (NAACAM, 2013).

2.4.1 Components Manufacturing Landscape

According to NAACAM, automotive components manufactures’ turnover stands at R81 billion in 2013 with capital expenditure estimated at R2.9 billion. The total employment 74, 000 compared to the 2008 peak of 82, 000.

**TABLE 5: SOUTH AFRICAN AUTOMOTIVE COMPONENT EXPORTS**

<table>
<thead>
<tr>
<th>Components</th>
<th>1995</th>
<th>2000</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalytic converters</td>
<td>389</td>
<td>4683</td>
<td>16 374</td>
<td>17 620</td>
</tr>
<tr>
<td>Engine and parts</td>
<td>111</td>
<td>485</td>
<td>2875</td>
<td>2938</td>
</tr>
<tr>
<td>Seats, stitched leather</td>
<td>1019</td>
<td>1915</td>
<td>1719</td>
<td>1524</td>
</tr>
<tr>
<td>Silencers/Exhausts</td>
<td>76</td>
<td>377</td>
<td>1730</td>
<td>1214</td>
</tr>
<tr>
<td>Tyres</td>
<td>213</td>
<td>682</td>
<td>1522</td>
<td>1215</td>
</tr>
<tr>
<td>Radiators and parts</td>
<td>55</td>
<td>127</td>
<td>945</td>
<td>159</td>
</tr>
<tr>
<td>Transmission shafts/cranks</td>
<td>55</td>
<td>127</td>
<td>771</td>
<td>800</td>
</tr>
<tr>
<td>Road wheels and parts</td>
<td>157</td>
<td>551</td>
<td>466</td>
<td>413</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>3318</td>
<td>12640</td>
<td>36867</td>
<td>37771</td>
</tr>
</tbody>
</table>

*Source: Automotive Export Manual 2014*
The above table 5 shows the total automotive components exported by South Africa in the given years. The exports increased by 2.5% from 36,867 in 2012 to 37,771 in 2013. Most of these South African Automotive components are destined for the following markets:

- European Union = 52% (Exports to EU dropped by 2% from 2012)
- Africa = 25% (Exports to Africa increased by 14% from 2012)
- NAFTA = 15% (Exports to China increased by 100% from 2012)

2.4.2 Local Content

According to Pooe (2012), on average, on components produced in South Africa, there is 60% local content and out of those components, 78% is exported. However, in terms of the net value, local components used in these vehicles production is significantly lower, it is less than 40% of the total component value. One of the objectives of the APDP is to encourage localization. Other SACU countries qualify under local content benefit. In NAACAM meetings in July, 2014 with representation of all industry stakeholders, one of the strategic issues addressed was relocation of a high labour intensive components industry to other neighbouring countries (NAACAM, 2014). Joining efforts to develop a regional approach to the automotive industry and ensuring that the components manufacturers, while they move out of South Africa or expand their operations, they stay within the region. This will not only benefit South Africa but even the other SACU countries.

2.4.3 Economic Clusters and Global Value Chains

Economic clusters play a crucial role in global value chains, especially for the small developing economies like Lesotho. There is now rich empirical evidence that small firms located in clusters, both in developed and developing countries, are able to overcome some of the major constraints they usually face. These are lack of specialized skills, difficult access to technology, inputs, market, information, credit and external services. Giuliani, Pietrobelli, & Rabelloitti, (2005), in their study stipulate that the capabilities of clustered firms to be economically viable and strongly contribute to the growth process in industrial districts has attracted a great deal of interest in development studies. However, when developing these clusters, firms have to bear in mind that due to recent changes in production systems, distribution channels and financial markets, and to the spread of information technologies, enterprises and clusters are increasingly integrated into the value chains that often operate across many different countries (Giuliani et al., 2005).
Schmitz (1995) introduced the concept of “collective efficiency” which is defined as competitive advantage derived from local external economies and joint action. According to Schmitz (1999), incidental external economies are of importance in explaining the competitiveness of industrial clusters, but there is also a deliberate force at work, namely consciously pursued joint action. Thus, a combination of external economies and effects of active cooperation define the degree of collective efficiency of clusters. However, recent studies show that due to emergency of GVC, firms need to take into account activities taking place outside the cluster and understand the strategic role of the external players.

2.4.4 Regional Integration and Trade Facilitation

The emergence of regional production systems resulted in regional integration. Humphrey & Memedovic (2003) recommended that developing countries can increase the possibility of integration into the global value chains of transnational automotive companies by opening up their domestic markets. To promote the expansion of GVCs, regional trade agreements (RTAs) are more effective when their membership is consistent with regional production networks (OECD, 2013).

2.5 Summary of Previous Research

Research shows that production has become fragmented, so that trade in intermediates has increased. Production used to happen in one single country (from components to assembly of whole product) to supply the other countries. This used to limit development of developing countries, especially Least Developed Countries like Lesotho to contribute actively to world trade. Their contribution to world trade and investment was therefore very little. The challenges ranged from skills shortage, lack of infrastructure and rail/road networks, little technology, little investment of Research and Development (R&D). This kind of production and trading system was not conducive to allow all the players of the market including third world countries to contribute well to production and world trade as well. The previous research shows a trend in world market where new generation trade issues like global Value chains make their way into the trading system and as a result affect the way the world is doing things.

Global competition is affecting everyone, with firms and countries fighting to make a mark in the system. In this new era, production of goods is fragmented, with the economies assessing their competitiveness and focusing on production of goods of which he is most competitive in
terms of cost of production, productivity, time of delivery etc. The benefits of this new trading pattern, is improved quality as competition is too tight and producers fight to make the best, there is also advance in technology as the multi-national corporation bring difference skills and technology to new worlds. Literature further shows that GVC is the most influential trade issue. The global automotive industry production depends a lot on value chains.

While mostly emerging economies and industrialized countries are involved in assembly of vehicles due to skills, necessary facilities and good incentives, the smaller under developed economies and developing economies are in manufacture of automotive components due to their high labour intensive nature. The reviewed literature agrees that the automotive industry mostly uses a “just in time” system, meaning reliability and being able to deliver on time is very important as a small delay in terms of delivery can cost a company and its clients hundreds of Rands. Unfortunately, the South African Automotive has an unstable labour and industry environment due to industrial action/strikes that occur frequently. There is support in research that trade unionist are politicized and play an influential part in regard to labour stability. Research further supports that South African automotive industry can strengthen itself through structured cooperation with its SACU members as they qualify under the APDP local content benefit.
CHAPTER 3 METHODOLOGY

3.1 AIMS AND OBJECTIVES OF THE STUDY

The main aim of this study is to analyze the South African Automotive Industry, identify different components and assess how best Lesotho can contribute to its supply chain by manufacturing car seat covers for the South African OEMs. This analysis is done to better understand the sector, to identify Lesotho’s Comparative Advantage and find the best trade policies relevant to support value chains in the sector. Hence the qualitative method is used.

3.2 METHODOLOGY AND RESEARCH DESIGN

When a firm or a country decides to acquire new markets for its products or new products to tap into new market destinations, it requires information that would guide its decision making. This way the country/firm would be able to compare different alternatives and make informed decision. Thereafter, acquiring current information becomes a continuous process to upgrade and develop on operational needs. Lamprecht (2009) defines marketing research as the systematic and objective collection, analysis and interpretation of information for decision-making and marketing problems of all kinds by recognized scientific methods. Cooper and Schindler (2008, 140) also define a research design as “the framework or blueprint for conducting a marketing research project. It specifies the details or the procedures necessary for obtaining the information needed to structure and/or solve marketing research problems”.

In order to fully undertake this study, a number of methods/tools and sources were utilized. A qualitative method of data analysis was adopted. The main focus of the study was both Lesotho and South African Automotive Industry. The case study here is to assess the possibility of manufacturing car seat covers in Lesotho to supply the South African OEMs. To obtain this information for analysis, the three sets of questionnaires were developed for interviews with different stakeholders to get their perspective:

- Components manufacturers
- Support institutions and policy makers
- Industry associations
- OEMs
(Questionnaires used in the interviews are attached except for BMW where we went as a group for study tour)

The three main car seat producers (Lear Corporation, Johnsons’ Control and Automotive Leather Company) in South Africa were interviewed and provided a clear picture from the components producers’ perspective. NAACAM and NAAMSA were also interviewed to get the perspective from Components manufacturers association and main assembly lines respectively. The DTI, IDC, AIDC and MTICM were interviewed to get the perspective from the policy makers as well as support institutions. Information from BMW was also sourced to get perspective from the OEMs and check whether they can still support components supplies from Lesotho.

To gather more information, a research trip to South African Automotive Week (SAAW 2014) was undertaken – through participation in exhibition, presentations and interactive discussions in conference, as well as one on one discussion with different stakeholders.

A study trip to Rosslyn Automotive Supplier Park in Pretoria was taken for brief meetings with Lear Corporation and ALC as well as tour of the park. A study tour to BMW plant was also undertaken.

A study tour to Europe, Poland where the main focus was on their automotive industry performance was undertaken. This included a tour of some of their vehicle assembly plants where they utilize electronic robotics for production.

Having worked for an Investment Promotion Agency for almost five years now, LNDC internal information was gathered and the general knowledge on the Lesotho garment industry was used on how best we can utilize it for development of automotive sector especially manufacturing of car seat covers.

The relevant publications on the study from various academic and trade institutions, both regional and international, were reviewed for more information on the industry. Most of this research including literature was a desktop research and publications from the industry news.

However, due to limited time and other resources, emails were utilized and requests for appointments with targeted audience were made. However, the research was constrained by reluctance or failure to respond by some identified relevant interviewees.
To gather as much information as possible, the literature was mostly based on South African Automotive Industry publications including Associations booklets and reports, newspapers, AIDC reports, and any other relevant books. Academic views were also sourced from the journal articles and other academic research. A lot of information was received from research by Prof. Justin Barnes who writes a lot on Automotive Industry. Presentations by main stakeholders such as Professor Barnes, a Researcher in the Automotive Industry, Mr. Robert Houdet, the NAACAM Executive Director, Industrial Development Corporation of Southern Africa (IDC) and Department of Trade and Industry were made in the Automotive Week conference. The study tour undertaken in Poland, where the case study was the Polish Automotive Industry also provided the study with a lot of information on European Automotive Industry.

3.3 NATURE OF RESEARCH

This is a case study, with select interviews of stakeholders. Qualitative method was utilized in this study. The qualitative method assisted with making more enquiries or providing the story to support the study. To obtain information to assess the potential of Lesotho to tap into the South African Automotive Industry, a small sample of car seat covers components manufactures was identified and selected for interviews, two of which already expanded their operation facilities in Lesotho. Another is still in South Africa and the plan is to encourage it to open an expansion facility in Lesotho as well. All these three (3) companies, Automotive Leather Company (ALC), Johnsons Control and Lear Corporation produce car seat covers and other small components for the South African OEMs. The two companies, ALC and Lear Corporation are based in Rosslyn Automotive Supplier Park in Pretoria while Johnsons Control is in COEGA Automotive Park in the Eastern Cape. These three (3) companies give a perspective from both regions of the country.

3.4 PARTICIPANTS AND SAMPLE SELECTION

The aim of the study was to get perspective and draw on experience of the industry stakeholders especially the three car seat covers producers. A small sample of respondents was selected to provide the information. The selection was based on only three car seat covers Manufacturers in both South Africa and Lesotho, ALC, Lear Corporation and Johnsons Control. This category was selected to assess the possibility and willingness to consider expanding operation facilities to Lesotho as well as to understand why those who have already relocated decided to do so. That is, to find the value proposition as analyzed by investors themselves. To further
understand the dynamics of the industry and how costly it would be if they were to relocate to Lesotho (the opportunity cost of relocating to Lesotho).

Other participants are the policy makers and support institutions. The target audience was both in Lesotho and South Africa. The AIDC was selected as the training and skills development authority for the industry that Lesotho can benchmark and learn best practices from, the IDC to assess their willingness to support Lesotho to develop the automotive component sector and facilitate for development of Regional (SACU) strategy to develop the automotive industry, the DTI for policy support and to encourage harmonious relations between the counterparts in both countries, MTICM for policy support in Lesotho and LNDC as the Investment promotion agency charged with a mandate to build the Lesotho industry.

The third group of participants was the Industry Associations like NUMSA, NAAMSA, NACAAM, and LEFAWU, FAWU in Lesotho to get perspectives from main assembly lines, components producers and labourers/employees in the industry. Other sample selection was the academic researchers including the leading Automotive Researcher, Professor Justin Barnes who has done an extensive research in the industry. This information was from the internet and the presentation he made at SAAW 2014.

3.5 SAMPLING PROCEDURE

The interest of the study was to draw from experience and get perspectives of components manufacturers specifically car seat cover manufacturers in SA, and other relevant stakeholders including OEMs, industry associations, policymakers and support institutions as well as academics research and industry reports. A small sample of respondents was selected to provide the necessary information and insights into the industry. The specific target population was Johnson Control, Automotive Leather Company, Lear Corporation and other industry stakeholders such as NUMSA, NAACAM, NAAMSA, including the support institutions and policy makers such as Department of Trade and Industry South Africa (DTI), Industrial Development Corporation (IDC), and Automotive Industry Development Corporation (AIDC), and MTICM, LNDC.

3.6 METHODS AND DATA COLLECTION TOOLS USED

The semi-structured questionnaires were designed to conduct interviews and collect primary data from the target population, including managers/employees of car seat manufacturers, support institutions and policy makers, as well as industry associations. Secondary data from
the industry publications was collected to provide background and literature to the study. Objectives related questions were developed, that is, to develop questionnaires, effort was taken to match the interview questions to the main and secondary objectives of the study.

3.7 **Analysis of Data**

The primary data/information collected from all the groups was written down in its raw state to develop paragraphs. The similar concepts or messages were identified from the paragraphs to develop themes. The themes were then categorized or coded into different titles for use in data analysis. The collected data was analyzed to interpret and draw conclusions of the study. The results were developed into tables for comparison purpose and to show/represent findings of the study. The graphs were developed to check the trends overtime as well as bar charts to check the percentage contribution of each variable on specific issues. This organization of results made it easier to facilitate discussions on various issues and interpret the results to make conclusions for the study. A descriptive analysis of all the data results was then made to draw conclusions. Validity of data was then checked by comparing results with secondary data collected from publications.
CHAPTER 4 RESULTS OF THE STUDY

4.1 INTRODUCTION

Where does Lesotho’s comparative advantage lie within the regional automotive value chain and what policies are necessary to support the sector? Answering this question enabled the study to find the strength of Lesotho in regard to the automotive value chains. The specific objectives was to assess the South African Automotive Industry with regard to car seat covers manufacturers, undertake the Lesotho SWOT Analysis in regard to the sector, assess the South African car seat covers plants and identify the Lesotho’s Comparative Advantage, and identify the relevant trade policies to support this value chain in the sector. To aid achievement of the mentioned objectives that were used to unpack the main question, one specific question was, Is the Lesotho investment environment conducive for production of car seat covers? As depicted in the methodology chapter above, a number of sources and methods were used to collect and analyze the data. This included semi-structured questionnaire for interview purposes, industry publications and scholarly journals. The results of the interview with Components Manufacturers are presented in raw state on the following table.

4.2 PRESENTATION OF RESULTS WITH TABLES

Interpretation of results involves making sense of study results and examining their implications. Table 6 depicts the categories and themes the researcher identified in order to make sense of the study results obtained.
<table>
<thead>
<tr>
<th>Category</th>
<th>Theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Productivity and Capacity</td>
<td>Skills level (experienced and trainable labour)</td>
</tr>
<tr>
<td></td>
<td>Absenteeism</td>
</tr>
<tr>
<td></td>
<td>Staff turn over</td>
</tr>
<tr>
<td>2. Government and institutional Support</td>
<td>Tax incentives</td>
</tr>
<tr>
<td></td>
<td>Support policies and programmes</td>
</tr>
<tr>
<td>3. Labour environment</td>
<td>Strikes frequency and trade union influence</td>
</tr>
<tr>
<td></td>
<td>Industrial relations procedure</td>
</tr>
<tr>
<td>4. Infrastructure requirement and cost of operation</td>
<td>Availability of factory shells</td>
</tr>
<tr>
<td></td>
<td>Cost of utilities</td>
</tr>
<tr>
<td></td>
<td>Road Networks</td>
</tr>
<tr>
<td></td>
<td>Cost of labour (wages)</td>
</tr>
<tr>
<td>5. Trade Facilitation issues</td>
<td>Customs procedures and waiting time at border</td>
</tr>
<tr>
<td></td>
<td>Registration and manufacturing licenses</td>
</tr>
<tr>
<td></td>
<td>Logistics and shipping</td>
</tr>
</tbody>
</table>

The table above presents a summary of results according to the categories and themes developed from the responses of the interviewees. There are five (5) identified categories from the results. The category of capacity and productivity, government and institutional support, labour environment, infrastructure requirements and cost of operation, and trade facilitation...
issues. The five (5) categories will be discussed according to the identified themes on each. The first category has three (3) themes; the need for skills in the industry. Requirement of skilled and trainable labour force. Another theme that arises from the results is worry of absenteeism, as well as intensity of staff turnover as they all affect productivity. The second category has two (2) themes. The needs for a good tax incentive package for the firms as well as good supporting policies and programmes. The third category has two themes. There is a worry on frequency of strikes and concern with management of industrial relations procedures between employers and employees. The forth category has four (4) themes. Availability of factory shells is of utmost importance to firms, the cost of utilities such as rentals, electricity, telecoms, and water. Good road networks are also identified as an add-on to the industry. The cost of labour was also identified as a great need for the industry. The fifth (5) category has three (3) themes which are depicted in the table as, concern over customs procedures and waiting time at the border. The second theme is efficiency of registration and securing manufacturing licenses. The third theme is the effectiveness and cost of logistics and shipping.

4.3 Summary of Results

The data collected from interviewing the components manufactures showed that the components manufactures feel that relocating or expanding their operation facilities to Lesotho would be a wise move for their businesses. While they realize that SA has a good incentives package, they also notice that such extra cost will be offset by the lower labor wages and utility costs in Lesotho. Hence, they agree that there is a lot to gain in relocating or expanding their operations in Lesotho. Findings on infrastructure requirements and utilities depict that there are more operating/overhead cost while operating in South Africa compared to Lesotho which has lower labour cost, rental fees, electricity and telecoms, with the exception of water which seems a bit higher in Lesotho than it is in South Africa. The results show that there is capacity in Lesotho to produce competitively to supply the South African OEMs. The results show that components manufactures feel that Lesotho employees are more reliable in terms of going to work and lower turn-over. While results show that in SA, there is high skills in the automotive industry, the same results further show however, that Lesotho workforce is trainable and has a long term experience in cut, make and trip (CMT) operations by the textile and garment industry. This makes it easier for components manufacturers to simply upgrade their skills to suit the needs of the industry.
5.1 Brief Statement of the Problem

Lesotho is not diversified in terms of products and markets. Manufacturing is the largest sector of the economy and the second largest employer. However, the largest manufacturing subsector is textile and garments, employing at least 40,000 locals in 2013. This sector is volatile in nature. Lesotho is likely to be hit hard by the external forces like the global financial crisis in the US market and the preference erosion due to too much reliance on trade preferences especially the Africa Growth and Opportunity Act (AGOA) which provides preferential access to the United States’ market. There is a dire need for employment creation through sustainable investment. The study undertakes to investigate how best Lesotho can contribute to the Regional Automotive Industry value chain to satisfy its diversification goal. Manufacturing of car seat covers is used as a case study to make this assessment. The aim is to use the South African Automotive Sector as an entry point for Lesotho components to penetrate the regional Automotive Value Chain.

5.2 Brief Summary of Methodology Review

De Vos et al. (2005) and Creswell (2009) agree that organizing data is the first step in data analysis. It is crucial to take care in analyzing data and it enables the researcher to make best decisions and develop a clear implementation plan. In this study, the collected data, was first organized and prepared for analysis. To develop general sense out of the collected data, the structured data was read over and over to get the underlying message. The data was then scrutinized to identify similar ideas or phrases to develop themes for coding. The categorized data was then described. Lastly, the findings of the study were written in table format for interpretation. The researcher followed these specific steps for data organizing and data analysis as per Tesch (1990)’s advice:

- Make sense of whole by reading all transcriptions carefully by beginning with the first data document
- Work on one document and determine underlying meaning, write thoughts/themes in margin
- Cluster together similar topics
- Revisit data with topics
• Turn topics into themes
• Reduce number of themes by grouping similar themes
• Perform preliminary analysis on material belonging to each theme and
• If necessary, recode existing data.

The processed or organized data was then presented in the research in table format with clear categories and themes to pass the main message to the recipients of the study. The themes were then interpreted and explained to provide their meaning to the identified category.

5.3 SUMMARY OF RESULTS

The summary of the research findings provided in Chapter 4 follows:

5.3.1 PRODUCTIVITY AND CAPACITY

Good productivity and capacity help the company is delivering on efficiently and on time. It makes the company reliable to its customers.

<table>
<thead>
<tr>
<th>Skills Level (experienced and trainable labour force)</th>
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</table>

The Components Manufacturers advised that the skills are the necessary virtue in the automotive components industry. The manufacturers further advised that experience adds to the productivity of individual employees and results in increased productivity of the company as a whole. However, the interviewed manufactures complained that in Lesotho, the current challenge is finding both supervisory and management level employees. However, it is easier to find floor job skills as most of employees has long term experience in the textile and garments industry. However, they still need to take them through the sector specific training as dynamics of production are a bit different in the automotive leather sewing firm. For instance, precision is important and one mistake in cutting or sewing a leather material results in total damage of the whole cover. The opposite is the case with textile as one can always cut the material into a small size in case of a slight mistake in cutting or sewing. In South Africa, there is abundance of automotive skills and AIDC is there for a continuous development on such. However, they further advised that in Lesotho, those they have trained have improved productivity.
Absenteeism

The components manufacturers’ further complaint that absenteeism from work which normally happens during the month end, results in poor productivity and capacity of companies. Most of the employees in Lesotho seem to bunk work during pay days. Some do bunk for medical/health reasons to attend check-ups for their different chronic diseases. This seems more evident on pay days.

Staff turn over

The companies are worried about staff turn-over. They say they lose skilled and experienced employees due to better salaries somewhere else. While this is not yet the case in Lesotho automotive components companies since there are still only two companies in the country, the practice is inevitable. The tendency is high in South African automotive components industry as employees seem to hop job looking for better salaries due to high competition.

5.3.2 Government and Institutional Support

The participants advised that government and institutional support are necessary to the development and performance of their business.

Tax incentives

Well-structured sector specific tax and other incentives are drivers of the companies that can only be gained if there is a good support of government, its support institutions including political buy in. Lesotho currently uses the general manufacturing incentives to support the sector. However, the government and LNDC is making effort to develop a sector specific value proposition which will also include the tax incentives. Some interview participants advised that they have had meetings with government officials in regards to developing the specific value proposition/incentive package.

Support Policies and Programmes

Support from government and development institutions can be sourced in the form of development of good support programmes and making all the necessary policies as well as good implementation plans. The interviews feel that for Lesotho to succeed in long-term investment in automotive components sector, there is a need for investment in development
of world class infrastructure such as Special Economic Zones (SEZs) as well as skills development.

5.3.3 Labour Environment

The stability of labour is an integral part of the performance of the automotive components industry. This is a high labour intensive business hence it is imperative to have, reliable, loyal, trainable and productive labour force at competitive prices.

<table>
<thead>
<tr>
<th>Strike Frequency and Trade Union influence</th>
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The companies advised that the frequent industrial actions such as labour strikes due to various reasons including wage increase, affect the firms competitiveness and overall revenue. The influence of trade unionists is also bad on the industry. In most cases, there are unprotected and unnecessary strikes due to their influence. This seems to be high in SA than in Lesotho with trade unions highly influential and politicized. This affects the industry as strikes lead to little or late deliveries. They advise that lack of production in just one day leads to large loss in revenue due to the JIT system being used. The interviewed firms advised that luckily for them, they have not experienced any strikes or labour instability since inception. This could be to the fact that they have been in operation for a short period, but they do feel comfortable to say the Lesotho environment is stable in that regard.

<table>
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<tr>
<th>Industrial Relations Procedures</th>
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The results also depicted the concern of the components manufacturers on procedures in place for dispute resolution between the employers and employees of the industry. This is crucial as poor industrial relations can affect stability leading to poor performance of the companies. The LNDC has a full time Industrial Relations Manager who is always ready to guide both the employers and employees on employment issues. The LNDC has managed over the years to contain strikes and engage in talks with both employees and employers before they get out of hand. Where necessary, the Ministry of Labour and Employment Officials also intervene.

5.3.4 Infrastructure Requirements and Cost of Operation

Infrastructure availability is a necessity in the industry. This refers to both soft and physical infrastructure. It is important for a country to have good and available factory shells, good
rail and road networks, telephone and internet connections (optic fibre network, national broadband network), water management facilities etc.

**Availability of factory shells**

The participants cited availability of standard and well ventilated factory shells that are warm in winter and hot in summer with enough ablution facilities necessary for the improving competitiveness of the company and attractiveness of the country as a good place to do business.

**Cost of utilities**

The cost of utilities is also a factor in determining relocation, expansion of facilities or investing in a country. This would determine the resulting overheads cost of the company. According to the participants, both rental fees, and electricity are lower in Lesotho compared to SA.

**Road/rail networks**

The participants argue that for a nation to be attractive for investments, it has to be easily accessible. A good network of railway and roads is therefore, perceived to be important to manufacturing plants.

**Cost of labour**

The interviewees mentioned that the automotive components industry is a high labour intensive business, which needs a good supply of available, reliable and productive labour force at competitive wage rates. This is the case for Lesotho, with Lesotho-SA hours rates ratio standing at R5 to R25 as per Managing Director of one Car seat covers manufacturers. That is, the SA wages rates are five times those of Lesotho.

**5.3.5 Trade Facilitation issues**

**Customs procedures and waiting time at border**

With Lesotho industry producing car seat covers in the country to supply the South African Automotive Industry, customs border procedures are an important factor. The companies
complain of long waiting at the borders due to long and cumbersome procedures and paperwork. Another challenge is having to wait on the South African side and then Lesotho side for clearance. They complain that it feels like an unnecessary repetition of formalities by the two governments.

**Registration and manufacturing of licenses**

The interviewees say that for a company that is ready to open manufacturing facilities, the speed with which their applications are processed for getting manufacturing license affects their final decision. This is sometimes, why the companies pull off from investing decisions.

**Logistics and shipping**

The companies complain that clearing agents in Lesotho seem to have rising costs all the time.

### 5.4 Discussion of the Findings

#### 5.4.1 Productivity and Capacity

According to Martinet *et al.* (2007), low-cost manufacturing strategies have become area of interest in recent years. Both large and small multinational companies have tried to squeeze costs out of their supply chains through production capacity management (PCM), a combination of capacity expansion in lower-cost countries and a reduction of overcapacity in older, higher-cost facilities.

The research provided a detailed discussion on this category based on the identified themes as depicted below:

- **Skills Level (experienced and trainable Labour)**
  
The automotive industry is a highly competitive industry, with R&D and innovation creating new opportunities for all types of employees. The industry uses different sets of skills from a car repair mechanic to highly qualified automotive engineers. The respondents claim that skills, experience and ability to upgrade one’s skills from time to time is necessary in the automotive components industry. They agreed that a highly skilled and experienced employee is more productive than a new inexperienced one. The Managing Director of Automotive Leather Company, in his response to the questions, “how much does a new employee produce per day compared to an experienced one?”, he responded though reluctantly (as it depends on many
factors) that it is approximately 0 to 5 sets of car seat covers, while the experienced one produces 12 to 25 sets. However, he further advised that a day’s production also depends on complexity of the product, the product line structure, and experience of the sewer. This issue on the skills need corresponds with reviewed literature which strongly supported the need for skills in the industry. Lesotho needs to research and develop a robust automotive skills development programme to support the sector.

- Absenteeism
Absenteeism from work has been cited as one of the most frustrating practices for the car seat manufactures in Lesotho. Absence of workers from work affects productivity and results in late delivery for the OEMs. The literature on automotive agrees with the participant that it is a great disappointment and its aggregate impact is finally felt by the company. It affects the efficiency and reliability aspects of the company as capacity is affected. Most employees are said to be absent during month end. The employees have no or limited time offs, so during month ends, it is time for them to sort their personal financial needs. It is also the responsibility of the car seat manufacturers to put in place a formally structured leave programme/plan to cater for personal needs of employees from time to time. However, throughout the month, the employees consistently go to work except on cases where some go for check-ups. The companies, with support from LNDC are brainstorming on different support programmes to ensure consistent attendance of work.

- Staff turnover
Participants expressed disappointment with the rate of staff turnover in South African automotive components industry. They complain that they hire unskilled labour, they take them through training at own costs, they acquire on the job training, and when they are most productive and at peak in terms of production capacity, they leave for anticipated greener pastures. One interviewee lamented that “they hop jobs for money”. Even though there is a wage gazette in place, the automotive industry has become so competitive that employers offer different salaries for similar positions. Workers are leaving for better salaries with competitors. This is not currently the challenge in Lesotho as there are only two automotive components companies. Most of those that are currently employed in the companies have been there since its establishment.
5.4.2 Government and Institutional Support

The participants all advised on the positive impact of government support on their businesses. They feel that if government has interest in their businesses, they would develop supporting programmes and policies to aid performance of the sector.

- Tax Incentives

The components manufacturers agreed that availability of tax incentives make a national investment attractive. However, they further lamented that these same incentives are not enough to retain the investors in the country if the overall environment is not stable. This is true in the case of South African automotive components industry. In comparison to Lesotho, South African industry is highly incentive in this regards, there is the APDP programme which focuses specifically on the industry, there are also other support programmes including skill upgrading programmes offered by AIDC as well as a specific initiative focusing on improving their competitiveness. Despite these incentives, two (2) large firms that produce car seat covers recently moved to Lesotho due to stability of the business environment as well as the competitive wage rate which are far less than those of South Africa at a ratio 25:5. In Lesotho, the automotive companies still use the general manufacturing tax incentives. However, efforts are made to develop the automotive value proposition which is inclusive of tax incentives.

- Support policies and programmes

For the industry to perform better, it is crucial to have all the necessary policies in place. The companies advised that all the trade related policies should be put in place. The specific policy requested for were the Industrial Policy, Investment Policy as well as Competition policy. However, the Lesotho companies also insisted on a need for a sector specific policy to support investment in Lesotho. The policy/programme should focus on improving their productivity and regional competitiveness. The companies further insisted on good business practices and services. They highlighted the introduction and further development of the Lesotho One Stop Business Facility (OBFC) a great support and magnet to the industry players who want to invest in Lesotho. Apart from incentives, the investors advised that good facilitation services for registration, VISA application, securing factory shells would encourage new investors to invest in the country. They were very happy with the introduction of online service by the OBFC where companies can register from the comfort of their own place. They also insisted on good aftercare strategy to ensure that their stay in Lesotho is as comfortable as possible. They advised that without a clear retention and expansion plan, it will be easier for them to relocate to other
countries and leave Lesotho if they are frustrated. My thinking gives me that these companies insist on formulation and implementation of supporting policies because they want to bullet proof their investments in case of challenges. Another observation is that, due to lack of implementation of these critical policies, Lesotho is losing many potential investors without even knowing it. On the other hand, for those companies who either want to expand to other countries and/or are already frustrated in South African, some never took liberty to make thorough analysis and feasibility to assess the benefits or costs of producing car seat covers in Lesotho to inform their relocation/expansion decisions.

5.4.3 LABOUR ENVIRONMENT

The automotive components industry is a highly labour intensive business with need for a reliable, productive and loyal workforce. The respondent complained that the industrial actions especially in South Africa where the frequency is high cause instability in the industry. They also supported for a need of good industrial relations procedures to minimize and solve these occurrences as and when they come.

- Strikes frequency and trade unions influence

South African automotive industry is rife with labour strike with trade unions on the fore front of such disagreements. This was a complaint from one of the respondents. However, NUMSA officials argued that their role is to ensure that there are harmonious relations between the employers and the employees. They believe that if the employees are not satisfied by the job, it is their role to ensure that such employees are satisfied and maintain good relations with the employers. NAAMSA, in its press release in 2013, mentioned that the cost of strike far outwit the revenue loss which is immediately eminent. It has other economic impact as South Africa is losing its credibility as the destination of choice for investments. South Africa also looks unreliable to its client due to frequent labour strikes that result in very low production outcome. Last year saw South Africa losing a loss of revenue and export due to the industry in the metal and engineering sector, as well as the components sector. This did not only affect the components industry alone, as one OEM complained of running short of components to complete their own products. The same OEM mentioned that if need be, his company would not mind to source components from the neighboring countries. Literature tells me that not only will the companies save on instability, but they will also cut on overall operating costs as they are said to be higher in South Africa compared to Lesotho. In regard to Lesotho, the strikes are very minimal and the unions do not have much influence. The LNDC and Ministry of
Labour and Employment have very good relations with Unionists which results in a more positive influence in regard to labour stability.

- **Industrial relations procedure**
Due to constant instabilities in the SA industry, a need for good labour-employers relations procedure is critical. In this particular case, the investors just want to be sure that they will get the required support whenever necessary. My observation is that since the interviewed respondents were all from South African automotive industry, which is rife with industrial strikes from low wage issues, they are already cautious as it has become a way of life in the industry. As mentioned earlier, for Lesotho the LNDC has so far managed to contain the strikes before they affect productivity. LNDC and Ministry of Labour and Employment provide guidelines and procedures to the companies for solving internal challenges between employers and employees.

**5.4.4 INFRASTRUCTURE REQUIREMENTS AND COST OF OPERATIONS**
On this particular question, all the participants advised that infrastructure requirement and country costs of operations are the greatest needs of the industry. They are saying this because without good infrastructural support, their operational needs cannot be met. Since this is the goods industry, they need good roads/rail networks, the telephone and internet connection supports their business communication efforts. Delivery of goods need accessible places with good road and rails.

- **Availability of factory shells**
As car seat manufacturers come to Lesotho, the first question is availability of factory shells. They do not want to be listed in the waiting line for pipeline projects. While this is not avoidable is some instance, the LNDC and other property developers should try to ensure a good supply of factory shells. The pipeline of projects waiting to be allocated building is very long, Lesotho experience investors re-thinking their decision to invest in the country due to long waiting periods. This is one of the discouraging issues of investing in the country. However, Lesotho rental costs are lower than those of South Africa in square meters. They are highly subsidized at R10.00 and R8.00 per square meters for new and old factory shells respectively. The government and LNDC are further making efforts to invest in an SEZ for the sector.
- **Cost of utilities**
One of the key issues that investors base their investing decision on is the national costs of utility. A good supply of electricity, water, telephone and internet usage at reasonable prices is an attractive variable for investors. Lesotho has a good supply of water and electricity at low costs. The rental rates for factory shells are also subsidized.

- **Road/rail networks**
Good road/railway networks are essential to the running of this production facility in Lesotho. This makes it easy for trucks containing consignment to reach ports and clients on time. Lesotho mostly utilizes the SA rail/road networks to deliver their goods to the destination. The Lesotho industrial estates also a good roads and further development on such are being made from the industrial estates to the borders.

- **Cost of labour (wages)**
The manufacturers advised that Lesotho labour market is stable. They are easy to train, have competitive wages way lower than those of SA. This is a plus for car seat manufacturers as they are highly labour intensive. This is further supported by the fact that there are minimal strikes in the country. The labour rates in Lesotho are an average R1, 200.00.

5.4.5 **Trade Facilitation issues**
Trade facilitation issues are one of the determining factors of trade and investment. The interviewees want good and timeous business registration process. Lesotho has established a One Stop Business Facility in this regard.

- **Customs procedures and waiting time at borders**
The companies further complained that they take long at the border. I feel that this negatively affects their business operations and delivery of products to clients on time. Unfortunately, this is a challenge for most African economies, the challenge that deprived Africa of great development through increased trade and investment. This waiting reflects badly on the national economy. Unfortunately, it is one of the factors that production firms consider before investing in a country. The LRA and SARS are also in talks to modernize border management. Countries are also striving for a National Single Window to reduce the cost and time of waiting at borders. Improved connectively and investing in world class ICT infrastructure would results in better services for investors crossing the border. This issue is even worse now that there is import of intermediate goods for use in the production of complete products (GVCs). Once the product is complete it is once more exported out of the country. One can imagine the stress that
comes with waiting at the border every time one is passing customs office. The Lesotho Revenue Authority (LRA) has recently introduced the Automated System for Customs Data (ASYCUDA) system at the borders to improve movement of goods in and out of Lesotho.

- **Registration and Manufacturing license**

On asking them about the requirement of the industry that would attract the potential investors, the interviewees highlighted a need for assistance in registering the company, securing manufacturing license and other documents like work permits. They said this is a straining exercise for a new investor who is not familiar with the relevant departments of the government and other stakeholders. Establishment and computerization of the Lesotho One Stop Business Facility Centre (OBFC) has improved Lesotho’s registration process. It has improved Lesotho’s doing business procedure as also indicated by the improved ranking within the World Bank doing business ranking of 2014. There is an online system for registering of the companies and LNDC is there to facilitate or offer support for registration services as well as securing necessary licenses.

- **Logistics and shipping**

The common complaint among the interviewees was the rising costs of clearing agents in Lesotho. Lesotho is entirely landlocked by South Africa without any direct connection to the sea or the airports. However, Lesotho has a good network of road. In regard to the automotive car seat covers, Lesotho is sitting right at the radius of all the automotive clusters. This makes it easy for Lesotho firms to supply its components to the industry.

**5.5 Meaning of the study**

The study is very important to the LNDC Investment Promotion division as it is able to provide insights and information on the salient issues regarding diversifying into automotive components industry. In a nutshell, the study agrees that it is possible for Lesotho car seat manufacturing firms to support the SA OEMs. This move would result in reduction of overhead cost due to lower wage level, rental fees, electricity costs that offset the APDP incentives and other national incentives by the SA government to its automotive components producers. The study will also have economic benefits for the country if its recommendations are implemented. It has potential to create employment, increase exports, acquire new automotive skills, and generate revenue.
5.6 **INTERPRETATION OF RESULTS (RESEARCHER’S INSIGHTS – RELATE RESEARCH TO PREVIOUS)**

As shown above on the unit interpretation of results, the implication of these results is that Lesotho based firms can produce car seat covers for servicing the OEMs. The Component Manufacturers themselves support this claim as they advise that before they came to Lesotho, they did thorough cost-benefits analysis and the outcome was positive for Lesotho as a preferred destination for car seat covers. However, while they support this move, they are still a bit worried about long term impact of this relocation. They advised that for the industry to succeed and improve its productivity, a good supply of reliable, loyal and trustworthy labour force at competitive prices is necessary. They mentioned a number of areas for improvement to retain and attract new investors in the components industry. Such are infrastructure, utility cost, supporting sector specific policies etc. On the contrary, this poses a threat for SA as components manufacturers threaten to relocate to Lesotho. However, to optimally achieve the win-win situation, LNDC is already trying to get into peaceful negotiation to develop a joint Regional Automotive Strategy. The idea is not to encourage investors out of SA, it is just to encourage them to consider Lesotho in their expansion or relocation plan. This would still be beneficial to SA firms as Lesotho automotive components still qualify under APDP local content.

According to the identified categories and their themes, when investing in a country, the automotive car seat cover manufactures are interested in productivity and capacity, availability of government and institutional Support, labour environment and infrastructure requirement and cost of operation as well as the trade facilitation issues. Literature on Global Value Chains supports this move to Lesotho by automotive components manufacturers. It supports that small economies leaving next to large developing economies should invest in automotive components industry and make their home a small hub of components production. This is because this industry is high labour intensive. For Lesotho, long term experience in the garments industry is also an added advantage.
## Table 7: SUMMARY OF CURRENT INVESTMENT ENVIRONMENT IN LESOTHO

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
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</thead>
<tbody>
<tr>
<td>Productive, trainable and stable labour force (minimal strikes)</td>
<td>Limited infrastructure</td>
</tr>
<tr>
<td>Competitive wages at R1, 200.00 per month</td>
<td>Limited professional auto skills</td>
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<tr>
<td>Constant supply of water and electricity at low costs</td>
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<tr>
<td>Experience in sewing</td>
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<tr>
<td>Simple registration (OBFC)</td>
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<tr>
<td>Introduction of ASYCUDA</td>
<td>Challenges at the border</td>
</tr>
<tr>
<td>Current efforts to develop automotive skills</td>
<td>Limited tax incentives and other programmes</td>
</tr>
<tr>
<td>Strategic location to SA OEMs</td>
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<tr>
<td>Subsidized rentals</td>
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<tr>
<td>Wide market access due to LDC status</td>
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</tbody>
</table>
CHAPTER 6 CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

In view of the analysis and discussions, the study objectives have been achieved. Lesotho has a competitive advantage to produce car seat covers competitively and support the South African OEMs. The country is able to produce car seat producers as supported by:

- A highly productive, trainable and stable labour force at competitive labour wage, with long term experience in textile and garments production.
- Stable political economy and industrial environment with minimal strikes, resulting in increased productivity and ability to service the automotive industry which utilizes “a just in time approach” in its operations. There is almost none or little influence by the Unionist to cause industrial strikes in Lesotho.
- Affordable operating and production costs including utility costs and incentivized rental rates for factory shells. Lesotho utilizes hydropower and is still making further efforts to develop more water pump storages for production of hydropower for local consumption.
- Lesotho is strategically located at the radius of most South African OEMs.
- Lesotho has improved “the ease of doing business” due to introduction and continuous improvement of the One Stop Business Facility Centre where one can acquire all the necessary documents and services for registering a business, securing manufactures licenses as well as getting all relevant documents including VISA, work and residence permits for expatriates.
- Lesotho has recently embarked on a developmental effort to coordinate investment climate reforms that will further improve the ease of doing business.
- LNDC as an Investment Promotion Agency charged with a mandate to build Lesotho’s industrial sector assist new investors with all necessary support in operating a manufacturing facility in Lesotho, including acquisition of land and provision of serviced and standard and customized factory shells according to the customers’ specifications.
- The South African OEMs are willing to source small components of finished products from Lesotho as they still qualify under the APDP local content benefit.
The South African based component manufacturers are willing to relocate or expand their car seat covers manufacturing facilities to Lesotho to enjoy the benefits of the Lesotho industrial environment as depicted above. The car seat covers components manufacturers explained that when making calculations between cost of production/operations between Lesotho and South African, it was found that the labour costs, minimal strikes, productive and stable labour costs offsets that of South Africa. Hence, making it worthy to consider Lesotho as a place of choice for investment in these components manufacturing.

The South African DTI and IDC are willing to support the regional approach (SACU) Strategy in developing the Automotive Sector. They feel that instead of leaving South Africa to relocate or expand to other countries, the components manufacturers should rather consider SACU countries as their products still qualify under APDP local content benefits. There is a great potential for cooperation of two countries.

To support the above, Lesotho should develop an automotive industry specific value proposition with a clear incentives package, skills development plan as well as clear stakeholder engagement plan to make the environment more conducive.

6.2 RECOMMENDATIONS

LNDC/Lesotho should facilitate and sensitize the South African stakeholders for cooperation in development of the Regional (SACU) Automotive Development Strategy to support the automotive industry to benefit both countries, including other SACU countries.

**Table 8: SPECIFIC RECOMMENDATIONS BASED ON THE RESEARCH RESULTS**

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Category/theme</th>
<th>Responsible party/person</th>
</tr>
</thead>
<tbody>
<tr>
<td>The findings of the study which highlights the five categories and their themes should be shared with the Investment Promotion team of LNDC which special focus to recommendations</td>
<td>All categories and themes</td>
<td>The Researcher</td>
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</tbody>
</table>
### Recommendations

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Category/theme</th>
<th>Responsible party/person</th>
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<tbody>
<tr>
<td>Advocate for <strong>automotive sector specific skills</strong> to level the playing field</td>
<td>Productivity and capacity: Solution to these themes of concern would increase productivity and capacity of the companies</td>
<td>Researcher</td>
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<tr>
<td><strong>Absenteeism</strong>: encourage companies to development absenteeism programme that</td>
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<td>will manage the high rate.</td>
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<tr>
<td><strong>Staff turn-over</strong>: encourage the companies to develop a plan for retaining</td>
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<tr>
<td>skilled staff, either in financial terms or capacity building programme</td>
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<tr>
<td><strong>Tax Incentives</strong>: In Lesotho, only manufacturing sector has specific policies,</td>
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<tr>
<td>specifically textiles. Creating automotive components incentives package would</td>
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<tr>
<td>benefit Lesotho as a strategic sector for our diversification plan.</td>
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<tr>
<td><strong>Support Policies and programmes</strong>: the corresponding policies and support</td>
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<td>programmes would attract new investors and retain already existing knowing</td>
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<td>that their investments are safe in Lesotho.</td>
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<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Category/theme</th>
<th>Responsible party/person</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strikes frequency and trade union influence:</strong> LNDC and all the relevant stakeholders must hold educational programs to advise employees on dangers of getting into unnecessary strikes, especially unprotected ones.</td>
<td>Labour environment: The automotive car seat covers producers are investing in Lesotho due to high stability and competitive wage rate. Lesotho should strive to support this industrial peace while busy trying to make our investment environment more attractive, so that if future they invest for more valuable reasons.</td>
<td>The Research will liaise with Industrial Relations Manager within LNDC to motivate him for this workshop and over implementation plan on industrial employer-employee relations</td>
</tr>
<tr>
<td><strong>Industrial relations procedures:</strong> Given the rate of growth of the industry, LNDC and the labour department should train more people to support good and harmonious relations between industrial employers and their employees. A workshop between employer representatives, employers and trade unions to develop a common goal would be beneficial</td>
<td></td>
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</tr>
<tr>
<td><strong>Availability of factory shells:</strong> With a lot of aggressive promotional efforts by LNDC, we should try to ensure factory space availability before we entice investors to come to Lesotho.</td>
<td>Infrastructure requirement and cost of operation is one of the essential tools of development including the wages especially availability and cost of labour (wages)</td>
<td>The Researcher will communicate this recommendation to the Property Management Division of LNDC</td>
</tr>
<tr>
<td><strong>Cost of utilities:</strong> as an incentive, we should facilitate for a national stakeholders meeting with only the most relevant officials (high profile) to advocate for lower utility costs especially electricity for our pilot</td>
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<tr>
<td>Recommendations</td>
<td>Category/theme</td>
<td>Responsible party/person</td>
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<tr>
<td>projects in the automotive sector as our strategic sector of diversification</td>
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<tr>
<td><strong>Road Networks</strong>: Lesotho should invest more on infrastructure such as road/rail networks, water treatment facilities and other soft infrastructure to increase its attractiveness.</td>
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<tr>
<td><strong>Cost and availability of labour (wages)</strong>: The reasonable cost of labour is crucial to retaining the car seat covers manufacturers. Currently wages seem the most attractive virtue for these investors at R1, 200.00. However, the nation needs to strive to secure investment for more valuable reasons so we do not create dependency on cost of labour as it is not necessarily the best option for our highly productive labour force.</td>
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<tr>
<td>Recommendations</td>
<td>Category/theme</td>
<td>Responsible party/person</td>
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<tr>
<td>Customs procedures and waiting time at border: the car seat covers producers in</td>
<td>Trade Facilitation Issues: improved and better trade facilitation make an</td>
<td>Research to communicate with LRA to give them insights and facilitate a meeting with LNDC</td>
</tr>
<tr>
<td>Lesotho source raw materials/inputs from SA, they export the same finished</td>
<td>investment environment very attractive to investors.</td>
<td>to brainstorm on the best possible solution</td>
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<tr>
<td>components back. This back time management at boarders is important to them.</td>
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<tr>
<td>Lesotho Revenue Authority (LRA) and SARS should be encouraged to find solution</td>
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<tr>
<td>to this long double waiting for investors.</td>
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<tr>
<td>Registration and manufacturing licenses: the OBFC must be strengthened to</td>
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<td>improve their service. They must increase their connectivity so that applications</td>
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<td>can be sent and received online.</td>
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<td>Logistics and shipping:</td>
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<tr>
<td>Clearing agents association must be approached to ensure that they charge</td>
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<tr>
<td>investors the standard market price in accordance with the laws of the nation.</td>
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</tr>
</tbody>
</table>
REFERENCES


OECD. (2013). Trade policy implications of global value chains. OECD.

Poöe, M. (2012). Keys to unlock local content and challenges facing government and automotive industry. NAACAM.


Roos, G. (2014). Australian’s auto meltdown has pressing lessons for South African manufactures. SAAW.


ANNEXURE

ANNEX 1

INTERVIEW QUESTIONS

COMPONENTS MANUFACTURERS (PRODUCTIVITY AND COST OF OPERATION)

Name:

Position:

Years of Service with the company/any other:

- On average, how many seat-covers are produced per day?

- On average, how many seat-covers does an individual produce per day?

- How many seat covers does a new inexperienced employee typically produce per day (esp. at initial stages of employment)?

- How long does it take for such an employee to eventually reach the average production rate?

- What sector specific incentives have you been given to improve your operation performance in RSA?

- Any negotiated incentives specifically for your company?

- What are the industry specific needs, in terms of infrastructure etc?

- Have you ever experienced strikes or any sort of instability in the past two years?
- If so, how many and what has been the cost/loss due to the strike? How long did it/they take to solve? What was the source/reason for such a strike/s? How frequent do such strikes occur?

- How much are the cost of logistics like shipping to and from suppliers?

- What does it take for a company to perform well within the RSA/Regional automotive sector?

- Can you please advice on the utility costs such as rentals, electricity, water and telecommunication per month.

- Do you have any special infrastructure requirements? Can a standard factory shell qualify for this type of business?

- Any general challenges in South African automotive sector you can share with me?

- Do you think automotive components manufacturing can succeed in Lesotho? What factors would make it sustainable?
ANNEX 2
INTERVIEW QUESTIONS

POLICY MAKERS/IMPLEMENTING AGENCIES (SUPPORTING POLICIES/PROGRAMMES)

Name:
Position:
Years of Service with the company/any other:

- What policies/incentives does RSA have to support the automotive industry (esp. components manufactures)?

- What has been the greatest grievance/challenges when operating in RSA?

- Can you assist with the cost/benefit analysis of operating in RSA within the automotive sector?

- Has the transition for MIDP to APDP been beneficial to SA auto industry? How?

- What impact do Trade Unions have on productivity and the auto industry as a whole?

- Do you see any possible amicable collaborations with neighbouring countries like Lesotho?

- Would you consider relocating/expanding of SA companies to neigbouring countries vis a vis foreign countries of any benefit to SA auto industry?

- How does the DTI incorporate the private sector needs in their policy making decisions? Any formal structures of communication between the two?
ANNEX 3

INTERVIEW QUESTIONS

INDUSTRY ASSOCIATIONS

Name:

Position:

Years of Service with the company/any other:

- How is the overall performance of the automotive components sector in South Africa?
- What kinds of policies are relevant in your operations?
- Do you get any specific support from the South African government institutions like the DTI?
- In your own view, does the APDP address the components sector’s challenges?
- How many components manufacturers are there in South Africa?
- How many components manufacturers produce car seat covers?
- Do SA components companies only supply the South Africa OEMs or do they serve any other market?
- Do you think components manufacturers would consider expanding their manufacturing operations to other SACU countries like Lesotho?
- What kind of support programmes and policies would be relevant to support the sector in these SACU countries?
- What kind of skills and infrastructure is required by the sector?
- What kind of relationship does the association have with the government?
- Does the government consult the association in their decision making on policies and programmes?
- Any general comments?
ANNEX 4

FACULTY OF COMMERCE
UNIVERSITY OF CAPE TOWN

Dissertation Examiner’s Report

Please complete this form and attach additional pages with your detailed comments should you wish to.

<table>
<thead>
<tr>
<th>Name of Candidate:</th>
<th>Degree:</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Malira Sekonyela</td>
<td>Master of Commerce in Management Practise specialising in Trade Law and Policy</td>
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</tbody>
</table>

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<tr>
<th>Thesis/Dissertation Title:</th>
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<tbody>
<tr>
<td>Integrating Lesotho economy into the Regional Automotive Value Chains: Manufacturing of car seat covers</td>
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| Examiner: | |

A. Assessment

For each of the criteria this assessment asks whether the body of work represented in the dissertation demonstrates certain outcomes, knowledge, capabilities and competencies. The following is offered as a guide to the assessment process.

1) Decide whether the dissertation demonstrates the outcomes implied in the questions listed under each of the criteria in an exemplary manner or unacceptable manner.

2) If a criterion does not fall into either of these categories decide which one it is closer to. If it is closer to exemplary than unacceptable, classify it as proficient. If it is closer to unacceptable, classify it as marginal.

3) Use the following symbols in your assessment: Exemplary=A; Proficient=B; Marginal=C; Unacceptable=D.

4) Please include a comment for each criterion that supports your assessment. If a particular criterion is assessed as either C or D please detail required improvements and/or corrections that need to be made to move it to a B.

The dissertation scope is a nominal 20 weeks of work. The indicative length is 20 000 to 25 000 words for the body of the dissertation (excludes content page, abstract and appendices).
General Assessment Criteria

1. Has the student demonstrated a thorough understanding of the area of research? Has the student integrated the practical issues that characterise the area with relevant concepts and theories?

This concerns the understanding of the theoretical and practical disciplines that are relevant to this field of research. Has an adequate understanding of these disciplines and their relationship to the research problem been demonstrated? Is there evidence of adequate preparation? Does the work show an understanding of existing issues, debates and scholarship in the field?


<table>
<thead>
<tr>
<th>Comments:</th>
<th>Assessment</th>
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<td>Required corrections and or improvements:</td>
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2. Has the student demonstrated an understanding of the nature and purpose of the dissertation?

This has to do with how well the student has understood the research problem or question. Is the student clear about the aims and goals of the work? Has the student stated the basic purpose of the work clearly? Have realistic and achievable objectives been formulated? Has the student identified important questions in the field? Has adequate background research and inquiry been done? How well have the context, its stakeholders, structures, processes, conflicts, climate and issues been understood? Has the research problem and question been adequately formulated?


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<thead>
<tr>
<th>Comments:</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>Required corrections and or improvements:</td>
<td></td>
</tr>
</tbody>
</table>

3. Has the student demonstrated a thorough knowledge of the literature that is relevant to this research?

The student is required to demonstrate his/her familiarity with the relevant literature. Has the student provided evidence of adequate preparation by reviewing the relevant literature? Has an adequate sample of the literature been reviewed? Is the student familiar with key concepts, models and theories? Have debates, trends and issues that dominate the discussions in the literature (triangulation) been discussed?

Has the student argued for and defended a theoretical position based on the literature? Has a sound theoretical framework for the research been developed and articulated. This applies to both the research area (disciplines) and the research process. Does the work show an understanding of existing and relevant scholarship in the field through the relevant literature?
4. Has the student reviewed, selected, developed and correctly applied an appropriate research framework, process and techniques?

Students are required to demonstrate a sound understanding of the nature and purpose of a sound management research process in general and in particular the process in selecting and developing the research framework used in the dissertation. Have the foundational ideas and philosophies – paradigms, quantitative and qualitative research etc. been considered and discussed? Have a range of alternate research strategies been considered and developed?

Has the student discussed how and why s/he selected the research strategy and framework considered the most appropriate to their circumstances? Has the student clearly articulated the framework, process and techniques followed? Has the student ensured a reasonable level of validity and trustworthiness of their data - credibility, transferability, dependability, confirmability.

Are the methods and procedures followed clearly communicated? Are the methods used appropriate for the research goals? Have these been effectively applied? Have these methods been adapted in response to changing circumstances?

5. Has the student demonstrated an independent and critical ability to analyse, interpret and synthesis material; construct and evaluate arguments; and make and defend judgements?

This reflects the quality of thinking as captured in the dissertation. Has the student rigorously gathered valid material needed for the research? Has s/he analysed and interpreted this material in ways that promote validity and trustworthiness? Have the key arguments in the paragraphs, the sections, and the chapters that make up the dissertation been rigorously constructed? Have the evidence and reasoning that make up these arguments been clearly articulated? Has the student evaluated these arguments and provided backing and qualifications where needed? Have judgements been adequately defended?
**6. Has the student demonstrated the independence of their research and presented it in a satisfactory manner?**

This reflects the ability to write up and communicate research in the student’s own words and constructions; and its significance and value. Has the dissertation been structured in a logical and coherent way? Is it easy to read and follow the reasoning? Is the reasoning coherent without gaps? Has the student made use of diagrams and logically integrated them into the text.

Is the style of the presentation suitable? Is the presentation effectively organised? Is the message presented clearly and with integrity?

<table>
<thead>
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<th>Comments:</th>
<th>Assessment</th>
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<td>Required corrections and or improvements:</td>
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**7. Has the student critically reflected on and evaluated their work?**

Has the student critically reflected on and evaluated the research process followed, the results, their judgements and their ideas in general? Has the relevance, utility, validity and ethics of their work been evaluated and defended? Has the student identified and evaluated the strengths and weaknesses, the biases and inconsistencies, their assumptions and judgements? Has the student brought the appropriate depth and breadth of evidence to their critique?

Has this evaluation been used to improve the quality of the work? Has the student reflected on their learning and development in the process? Has s/he speculated on the consequences and possible future development of their work?

Is the student clear about the significance of their results? Does the student achieve their research goals? How have the results contributed to the discipline and the field? Has this research opened up new areas for further exploration?

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**B. Classification of Dissertation**

Please indicate your classification of this work. **Mark only one of the blocks below.**
<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
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<tr>
<td>A</td>
<td>Awarded with distinction</td>
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<tr>
<td>B</td>
<td>Awarded with distinction but <strong>minor corrections</strong> to be made</td>
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<tr>
<td>C</td>
<td>Awarded without distinction</td>
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<tr>
<td>D</td>
<td>Awarded without distinction, but <strong>minor corrections</strong> to be made</td>
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<tr>
<td>E</td>
<td>Awarded degree <strong>after</strong> identified changes have been made to the satisfaction of the Dean</td>
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<tr>
<td>F</td>
<td>Not awarded, but the candidate is permitted to <strong>revise and re-submit</strong> for re-examination</td>
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</tr>
<tr>
<td>G</td>
<td>The degree is <strong>NOT AWARDED</strong></td>
<td></td>
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</table>

75% and over=1st class; (distinction) **clearly superior**  
70-74%=Upper 2nd class; (excellent work)  
60-69%=Lower 2nd class; (good work)  
50-59%=Third class; (acceptable paper at the level designated)  
Less than 50%=Fail; (unacceptable)

Mark assigned is  

%  

Signature: | Date: