The SADC Trade Protocol and Industrial Performance in Southern Africa.

A Case of the Automotive Industry in Zimbabwe.

Submitted by

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In partial fulfilment of the requirements for the degree of Masters in Social Sciences in Economics

School of Economics
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September 1999
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ACKNOWLEDGEMENTS

I would like to thank the Development Policy Research Unit (DPRU) for providing the financial resources necessary to obtain and analyse the data presented here. Without the field survey conducted, much of the work presented in this paper would not have been possible. Indeed, I would like to thank all those officials and executives who participated in the interviews and completed the questionnaires. I thank them for their time and commitment.

I would further like to express my gratitude to my supervisor, Anthony Black, for his time, wisdom, inspiration and patience. His encouragement and support was never in short supply, and his comments and criticisms throughout the entire period of this research project, have been most helpful. An extension of my gratitude is also made to Isaiah, Muranganwa, Rozina, Zola, and the staff at the ZIANA library in Zimbabwe, who all contributed towards the preparation of this paper. Their time and effort is sincerely appreciated. A special thanks also to my Father and Mother, and my brother and sisters for their spiritual support.

However, any errors or omissions that have arisen are my responsibility alone.
Research Abstract

It is generally accepted that regional cooperation and integration can facilitate renewed industrial growth and sustainable development, particularly among the developing countries of the world. Even the developed economies have not been able to avoid the tendency towards integration, as it is believed that the benefits to be reaped far outweigh the associated costs. The purpose of this research is to focus on the Southern African region, more particularly, the SADC region. The SADC Trade and Investment Protocol was signed by all SADC members in August of 1996 and it was envisaged that a free trade area would be established by 2002 by means of a gradual tariff phase down, and the removal of all other impediments to intra-regional trade. What is of concern to individual member states are the implications of such a protocol on industrial performance and trade patterns in the region.

This research seeks to establish the changing nature of industrial performance in Zimbabwe against a rapidly changing trade and macroeconomic environment. In this regard, a sectoral study of the automotive industry in Zimbabwe is a crucial part of the research where interviews and surveys were conducted to ascertain how the industry is responding, and how it plans to continue to respond against the backdrop of the SADC Trade Protocol. Is regional integration a solution to the industrial and trade problems faced in Zimbabwe, with particular reference to its automotive sector? How is the problem of the distribution of the costs and benefits of integration going to be overcome in the SADC region? Since the automotive industry is regarded as a development sector, to what extent can regional cooperation and integration encourage automotive investment and intra-regional automotive trade?
The automotive industry in Zimbabwe, small as it is by any meaningful standards, could be the engine for industrial growth in the economy. Although the industry as a whole appears, and is perceived to be uncompetitive and an unnecessary drain on the economy, there are nevertheless existing and potential competitive and comparative advantages that are present. What are these advantages? And, to what extent does a rapidly changing trade and investment environment (as is spelt out in the SADC Trade protocol) provide opportunities and threats towards the growth and development of the automotive industry sector in Zimbabwe.

These are some of the questions that this research project seeks to provide answers for. This research also draws from the experience of other integrating regions and provides theoretical models that could be appropriate for the specific circumstances that exist in the Southern African region.

Samson Muradzikwa
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September 1999
List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAZ</td>
<td>Automobile Association of Zimbabwe</td>
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<tr>
<td>CBU</td>
<td>Completely built unit</td>
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<tr>
<td>CCZ</td>
<td>Consumer Council of Zimbabwe</td>
</tr>
<tr>
<td>CKD</td>
<td>Completely knocked down</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CSO</td>
<td>Central Statistics Office</td>
</tr>
<tr>
<td>CZI</td>
<td>Confederation of Zimbabwe Industries</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry (South Africa)</td>
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<tr>
<td>ESAP</td>
<td>Economic Structural Adjustment Programme</td>
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<tr>
<td>FTA</td>
<td>Free trade area</td>
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<tr>
<td>MIDP</td>
<td>Motor Industry Development Programme (South Africa)</td>
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<td>MTAZ</td>
<td>Motor Trade Association of Zimbabwe</td>
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<tr>
<td>NEWU</td>
<td>National Engineering Workers Union</td>
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<tr>
<td>OAU</td>
<td>Organisation of African Unity</td>
</tr>
<tr>
<td>PTA</td>
<td>Preferential Trade Area</td>
</tr>
<tr>
<td>SACU</td>
<td>South African Customs Union</td>
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<tr>
<td>SADC</td>
<td>Southern African Development Conference</td>
</tr>
<tr>
<td>SKD</td>
<td>Semi knocked down</td>
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<tr>
<td>ZCTU</td>
<td>Zimbabwe Congress of Trade Unions</td>
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<tr>
<td>ZIANA</td>
<td>Zimbabwe Inter-Africa News Agency</td>
</tr>
<tr>
<td>ZIMPREST</td>
<td>Zimbabwe Programme for Economic and Social Transformation</td>
</tr>
<tr>
<td>ZNCC</td>
<td>Zimbabwe National Chamber of Commerce</td>
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Zimbabwe, like many other African countries, suffers from the unavailability of updated and meaningful industrial (sectoral) data. The problems of data collection are compounded by the large size of the second hand vehicle and spares market which has no recorded data. It is therefore unsurprising that much of the data presented and analysed in this paper were obtained through questionnaires, and face to face interviews with vehicle manufacturers, component producers, direct importers of CBU’s and components, the government, the trade union movement, industry federations, and local consultants and academics. (Copies of the questionnaires are in appendices 1 to 3).

The actual sample size across sub-sectors was as follows: 9 component producers (out of a total of 15), 4 vehicle assemblers (out of a total of 5), and 4 direct importers (2 importing CBU’s and 2 importing components). The sample also included the government (represented by the Ministry of Industry and Commerce), the National Engineering Workers Union, the Confederation of Zimbabwe Industries, the Motor Trade Association of Zimbabwe, and the Automobile Association of Zimbabwe (see appendix 4).

Since the purpose of this research is to establish possible areas of competitive and comparative advantages in the Zimbabwe automotive industry in terms of production, value added, etc., the major areas of focus throughout this thesis, are the vehicle assembly and component manufacturing subsectors.
# Table of Contents

1. CHAPTER ONE

   **Introduction** 2

2. CHAPTER TWO

   **Regional Co-operation and Integration: A Literature Review**
   - 2.1 Introduction 6
   - 2.2 Defining Regional Integration 6
   - 2.3 Theoretical Models of Regional Co-operation and Integration 8
     - 2.3.1 Market Integration Theory 9
     - 2.3.2 Development Integration Theory 12
     - 2.3.3 Function-Based Integration 14
   - 2.4 Distribution of the Benefits and Costs of Integration 15
   - 2.5 What are the Conditions Necessary for Successful Integration? 17
   - 2.6 Conclusion 20

3. CHAPTER THREE

   **Crossing the Rubicon: Regional Integration in Southern Africa**
   - 3.1 Introduction 21
   - 3.2 The Structure of SADC Economies 22
   - 3.3 The Dawn of a New Era: The SADC Trade and Investment Protocol 28
   - 3.4 The Impact of the SADC Trade and Investment Protocol 29
   - 3.5 Automotive Production and Trade in the SADC Region 31
   - 3.6 Conclusion 36
4. CHAPTER FOUR

The Development and Performance of the Zimbabwean Automotive Industry: Are There Competitive Advantages in this Sector?

4.1 Introduction

4.2 Market Analysis

4.2.1 Sales and Production

4.2.2 National Vehicle Park

4.2.3 Affordability of Vehicles in Zimbabwe

4.3 Policy Developments

4.3.1 Vertically Integrated Companies

4.3.2 Structural Adjustment and Trade Liberalisation

- Local Content
- Profitability
- Employment and Wages
- Capacity Utilisation
- Automotive Trade Balance

4.4 Conclusions

5. CHAPTER FIVE

Is the SADC Trade and Investment Protocol a Solution to the Structural Problems of the Zimbabwean Automotive Industry Sector?

5.1 Introduction

5.2 Impact of, and Responses to the SADC Trade Protocol

5.2.1 Vehicle Assemblers

5.2.2 Component Manufacturers

5.3 Policy Recommendations

5.3.1 Industrial / Sectoral Policy

5.3.2 The MIDP and a Regional Automotive Policy

5.3.3 Licensing/Franchising Agreements

5.3.4 Investment

5.3.5 Standards and Quality Control
5.3.6 Demand Management  
5.4 Concluding Remarks

6. CHAPTER SIX

Conclusion

BIBLIOGRAPHY

Appendix One

Questionnaire for the Motor Vehicle Assemblers

Appendix Two

Questionnaire for Component Manufacturers

Appendix Three

Questionnaire for Direct Importers

Appendix Four

List of Organisations Surveyed During the Research
## List of Tables and Figures

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 3.1</td>
<td>SADC Social Indicators</td>
<td>22</td>
</tr>
<tr>
<td>Table 3.2</td>
<td>Structure of Production of SADC Economies</td>
<td>23</td>
</tr>
<tr>
<td>Table 3.3</td>
<td>SADC Sectoral Data on Output and Employment</td>
<td>24</td>
</tr>
<tr>
<td>Table 3.4</td>
<td>Major Exports and Imports in the SADC Region</td>
<td>26</td>
</tr>
<tr>
<td>Table 3.5</td>
<td>Direction of SADC Exports</td>
<td>27</td>
</tr>
<tr>
<td>Table 3.6</td>
<td>Automotive Operations in Selected Developing Countries</td>
<td>33</td>
</tr>
<tr>
<td>Table 3.7</td>
<td>Vehicles in Use in Southern Africa</td>
<td>33</td>
</tr>
<tr>
<td>Table 3.8</td>
<td>Automotive Production in Africa</td>
<td>34</td>
</tr>
<tr>
<td>Table 3.9</td>
<td>South African Vehicle Exports to SADC</td>
<td>35</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Vehicle Sales in Zimbabwe</td>
<td>39</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Company Profiles</td>
<td>40</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>South Africa/Zimbabwe Vehicle Price Comparisons</td>
<td>44</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Local Content Levels</td>
<td>50</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Automotive Industry Employment in Zimbabwe</td>
<td>52</td>
</tr>
<tr>
<td>Table 4.6</td>
<td>Minimum Industry Wage Rates</td>
<td>53</td>
</tr>
<tr>
<td>Table 4.7</td>
<td>Major Obstacles to Expanding Exports</td>
<td>56</td>
</tr>
<tr>
<td>Table 4.8</td>
<td>Automotive Tariff Schedule (Zimbabwe)</td>
<td>57</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Planned Responses to the SADC Trade Protocol</td>
<td>62</td>
</tr>
</tbody>
</table>

| Figure 4.1 | Passenger Car and Light Vehicle Market           | 41   |
| Figure 4.2 | National Vehicle Population of Zimbabwe          | 42   |
| Figure 4.3 | Competitive Responses to the Structural Adjustment Programme | 47   |
| Figure 4.4 | Destination of Component Manufacturing Output    | 49   |
| Figure 4.5 | Profitability in the Component Manufacturing Sector | 51   |
| Figure 5.1 | Expected Competition from SADC                   | 61   |
CHAPTER ONE

Introduction

Experience is the best teacher. Some of the experiences in the developing countries of Asia and to a lesser extent Latin America clearly show the pivotal role that international trade can play in economic development. Generally speaking, both theory and practice confirm that trade increases welfare, and contributes to economic growth and poverty alleviation. How a nation conducts its trade and the nature of the trade regime under which firms and industries are operating, are crucial factors in determining the extent to which a country gains (or indeed loses) from international trade. Trade performance in Africa, particularly in the post-independence era, has been disappointing – Africa’s share of world merchandise trade dropped from 6% in the early 1980s to 2% in the mid 1990s, and in the same period, Africa recorded an average annual decline in exports of one percent (Oyedije, 1998). To put these figures into context in the same time frame, Asia and Latin America recorded average annual rates of export growth of 7%, and 5% respectively, with Asia achieving 27% share of world merchandise trade.

Trade has many dimensions, and this research is concerned primarily with the dimension of regional co-operation and integration. Among developing countries, and indeed among the developed ones, regional co-operation and integration is widely accepted as a potentially effective means for facilitating rapid economic growth, and sustainable development. Internationally, shifts towards regionalisation, free trade areas and common currencies, and the emergence of regional trade blocs in different parts of the world in the past decade or two¹, bare testimony to this assertion.

¹ Examples include MERCOSUR in Latin America (Argentina, Brazil, Uruguay and Paraguay), ASEAN in Asia (Brunei, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), NAFTA (U.S.A., Canada, Mexico and the much more advanced European Union.)
In Africa, various attempts towards regional cooperation and integration have left much to be desired (for instance the East African Community disintegrated in 1977 after almost a decade of cooperation)\(^2\) but this however has not deterred African states from seeking closer cooperation with one another. Africa has continued to acknowledge the importance and need for regional approaches to development, as reflected in a statement made by the Secretary General of the Organisation of South African Unity (OAU), Dr. Salim Ahmed Salim who remarked “Without regional integration Africa will not only be marginalised it will be trivialised!”\(^3\)

This thesis is concerned with the current moves in the Southern African region to establish free trade area. The SADC Trade and Investment Protocol of 1996, in principle has been accepted by all members of the region although the implementation process is moving at a much slower pace than was initially expected, due to various inhibiting factors. To what extent does the protocol have the potential to promote industrial growth and development in the region? This thesis attempts to provide answers, with specific reference to the automotive sector in Zimbabwe.

The automotive industry is one of the world's largest industries and as such its importance to the economic growth and industrial development of an economy cannot be understated. The industry encompasses the production of cars and commercial vehicles as well as the manufacture of parts and components\(^4\), truck and bus bodybuilding, and the general motor retail trade i.e. dealerships, after-sales service, workshops, and garages. It is therefore imperative to note that the viability of the component manufacturers and motor traders in a country, depends upon the growth and development of the vehicle manufacturing activities in the industry and upon the growth in the market demand for vehicles.

\(^3\) At a 1992 OAU meeting in Addis Ababa.  
\(^4\) For both the replacement (aftermarket) as well as those used by vehicle firms (OEM).
The automotive industry in Southern Africa is located mainly in South Africa, Zimbabwe, and more recently Botswana. Automotive trade between these three countries has been very unevenly balanced with Zimbabwe being unable to export any vehicles to Botswana or South Africa, although both countries export automotive products to Zimbabwe.

The SADC Trade and Investment Protocol is in effect proposing a free trade area for the region. Against this background of a rapidly changing trade and investment environment, what are the implications for the automotive industry sector in Zimbabwe? Economic theory suggests that trade liberalisation - which can be viewed as forming the basis of the SADC Trade protocol - will tend to reduce the prices of liberalised products relative to other goods in the domestic market and to similar commodities internationally. In addition, both standard trade theory and the general equilibrium models used to analyse the sectoral impact of tariff reductions predict a fall in output for the affected sector with the benefits accruing to the rest of the economy in the form of lower prices and a more efficient allocation of resources. Indeed, reality at the sectoral level is far more complex and the actual consequences depend largely on how firms in the industry respond to this unfolding trade environment.

Although the analysis is limited to one industry, the results from this research can be used to provide general as well as specific trade and industrial policy guidelines and open up the way for further sectoral research in the SADC region.

Chapter Two provides an overview of the literature on regional co-operation and integration. Various forms of co-operation and integration are analysed with a view to bringing a theoretical perspective to the contemporary debates on the welfare gains of closer regional integration. The experience of other examples of regional integration are drawn upon, so as to provide some context for the analysis of regional co-operation and integration in Southern Africa. This is partly discussed in Chapter Three, which also analyses the nature and implications of the SADC Trade and Investment Protocol.

There are also small, peripheral industries in Swaziland and Zambia.
Chapter three also outlines automotive trade and investment in the SADC region. **Chapter Four** deals with the automotive industrial sector in Zimbabwe, based on questionnaires and company interviews. This section of the paper looks at the competitiveness of the industry and how the industry is responding to the changing regional, and global environment. It assesses the potential competitive and comparative advantages that exist in the automotive sector in Zimbabwe. **Chapter Five** ascertains whether regional integration (in the form of the SADC Trade and Investment Protocol) is the solution to the multiple problems that beset the economy in general, and the viability of the automotive sector in particular. Are the prospects of a free trade area in the SADC region a source of potential for the growth and sustainable development of the Zimbabwean automotive industry? Policy recommendations are also provided in this chapter. The conclusions are set out in **Chapter Six**.
CHAPTER TWO

Regional Co-operation and Integration: A Literature Review.

2.1 Introduction

Globalisation has encouraged the harmonisation and co-ordination of industrial and trade policies among different countries and regions. It is often assumed that regional co-operation and integration are a necessary, although not sufficient condition for renewed growth and development. But to what extent do such regional economic arrangements provide benefits and opportunities for member countries in an integrating region? Furthermore, what are the various options and models of regional integration and co-operation and what are the respective strengths and weaknesses? The most common problem of regional integration is the distribution of the resulting benefits and costs. Therefore, what are the preconditions necessary for regional integration to be successful? These are the issues addressed in this chapter.

2.2 Defining Regional Integration

Economic integration has been used at various times in the past to refer to almost every conceivable aspect of international economic relations (Robson, 1980,p.1). But this definition proved to be inadequate because of its over-generality and by the 1960's, the term 'economic integration' was employed more specifically to denote a "state of affairs or a process involving the combination of separate economies into larger economic regions." (Robson, 1980, p.1). Trade integration, which is a much narrower concept than economic integration, is a condition (or process) involving separate national economies maintaining (or progressively driving towards) lower barriers to mutual trade, while
sustaining relatively higher and more primitive barriers to third parties (Carim, 1997, p.336)

Other theorists such as Brewster and Thomas (1969,p.112) have defined integration more as an outcome rather than process. It is stated that, “by economic integration one must refer to the consequences of any so-called integrating mechanisms rather than the mechanisms themselves.” Drawing on this definition one is tempted to believe, as Mokate (1986, p.20) does, that although the mechanisms and arrangements for integration might be established, and these mechanisms have a negative impact, what could result is disintegration as opposed to the much desired integration.⁶ Such a definition is concerned more with the effects of integration.

Balassa (1966) and Kissanga (1991) suggest a distinction between co-operation and integration against the background of literature that often uses the concepts imprecisely and interchangeably. Co-operation involves mechanisms to harmonise economic policies and to reduce all forms of discrimination in economic relations between states.⁷ But such measures, “stop short of creating supranational political institutions or power centres to where loyalties, expectations, etc. are shifted” (Kissanga 1991, p.6). Therefore one can infer from Kissanga’s statement that these supranational political institutions are at the heart of any meaningful integration and although countries could engage in co-operation (such as on an agreement on trade), it does not necessarily imply integration (such as the abolition of trade restrictions through removal of barriers). A thin difference indeed but this could explain the regional process in the Southern African region where co-operation has taken place over a period of time (various SADC protocols: trade and investment, transport and communication, etc) but very little in terms of integration has taken place.

⁶ To justify this perspective, the authors use the case of Britain and its colonies which were bound by integrating mechanisms (such as more or less free movement of labour and capital, consistency in tariff regulations, banking systems, institutional cultures, etc). However, the effect of being integrated within the British Empire for the colonised countries was to disintegrate and disarticulate their economies individually, as well as at the regional level.

⁷ Such as consultations on general policies, joint participation in different projects and programmes, etc.
This research project will adhere to the generally accepted definition that economic integration is a gradual process which facilitates the liberalisation of economies and establishment of conventions among countries, and the eventual harmonisation of economic policies between countries so as to allow for the efficient allocation of resources. And as Kissanga (1991, p.12) correctly puts it, "industrial and trade co-operation is based on the willingness of those co-operating to pool together their resources as well as share the costs involved in order to reap more benefits that would otherwise not accrue to them individually in the absence of co-operative effects and arrangements." The problem with such integration and co-operation as we shall discover later, is how to equitably distribute the associated costs and benefits in the short term.

2.3 Theoretical Models of Regional Co-operation and Integration

This section examines the theoretical literature regarding the different models of regional integration with a view of ascertaining whether the SADC, and other regional economic and political groupings are pursuing objectives, and executing strategies in a manner that is consistent with economic theory. To a large extent, the various models of co-operation and integration are based primarily on different motivations and perceptions of potential benefits (Hazlewood, 1975) and what has become the most common point of departure is the enlargement of space, with particular emphasis being placed on the expected gains of creating a larger economic market (Ostergaard, 1993, p.1).

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8 In this regard can be seen as the process whereby actors in several distinct national settings are persuaded to shift their loyalties, expectations and activities towards a new centre whose institutions and processes demand jurisdiction over pre-existing states (Haas, 1968, p.16)
9 From small separate national economies or territories to wider regional areas
2.3.1 Market Integration Theory

Market integration theory is inspired by the early work on customs unions by Viner (1950) who argued that the criterion of gain is whether a customs union on balance is 'trade creating' or 'trade diverting'. Trade creation is defined as a shift in trade from a high cost to a low-cost source of supply within the integration area and trade diversion is taken to be the opposite: a shift in trade from a low cost source of supply outside the integration area to a high cost producer within it (Viner, 1950, p.8). Therefore both 'trade creation' and 'trade diversion' increase trade within the integration area but, 'trade creation' is welfare enlarging while 'trade diversion', despite promoting intra-regional trade is welfare reducing. As such, if trade diversion exceeds trade creation within a customs union, then the net effect on world welfare and the welfare of the members will be negative. According to Hazlewood (1975), Robson (1980), and Mokate (1986), the integration experience in many developing countries has sadly been trade diverting in the sense that countries have shifted trade from low cost producers in the developed world to high cost producers within the integrated region.

What types of market integration exist? Balassa (1966) identifies five ideal types of market integration. This identification was done in the context of removing discrimination (or trade barriers). At the lowest level there is a free trade area which can be described as an association of a number of countries between whom all import tariffs, quantitative or quota restrictions, export subsides and various other measures to influence trade have been removed, but each country however continues to engage in its own international trade measures with countries outside the integrating region (Kisanga, 1991, p.10).

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10 Born out the initial 'customs unions theory' however this term has been as limited because it only applies to one of the stages in the envisaged evolution from a free trade area to an economic union.
11 Move to high cost producers within the integrating region.
12 Such as export incentives.
Next in line are the customs Unions 13 which in addition to the elimination of internal trade barriers, erect a common external tariff against non-members. This is different from a free trade area where each member country does not give up the sovereignty to determine its own tariff policy against non-members. Kissanga (1991) alludes to the fact that at one time customs unions were seen as a step in the right direction since free trade was believed to be beneficial and a customs union is indeed a step in that direction. But Viner (1950) who argued the case of 'trade creation' and 'trade diversion' as was mentioned earlier disputed this.14

The next level is a common market, which has all the features of a customs union, and in addition to that, there is a free movement of the factors of production (such as capital and labour) across international boundaries.

An economic union is formed when common market members progressively harmonise their economic policies, sometimes even adopt a common currency (Carim, 1997, p.336). This type of market integration moves beyond trade liberalisation among members and constitutes regional economic integration.15 Finally, Total Economic Integration (or Political Integration (Ostergaard, 1983)16 is a situation that is achieved when members of an economic union establish by means of agreement a 'supranational'17 authority to deal with issues such as monetary, fiscal, and social policies.

Clearly, the integration experiences in Africa have not been consistent with the various stages outlined in this theory. Robson (1968) argues that the assumptions underlying the traditional customs union theory are too much of a far cry from reality. He asserts that the theory makes the same basic assumptions as the static theory of comparative advantage. These assumptions include the following:

13 an example is the SACU comprising South Africa, Lesotho, Swaziland, Namibia and Botswana.
14 According to conventional theory, trade creation is more likely to outweigh trade diversion when (1) trade among co-operating partners is currently or potentially a large proportion of their overall trade (2) there is a high level of complementarily in productive structures (Davies, Keat and Nkuhhu, 1993, p.35)
15 note that trade integration is viewed as a narrower concept than economic integration
16 such as Ostergaard.T (1983, p.30)
• Trade within each country is perfectly competitive.
• Held constant are factors of production, tastes, the state of technical knowledge and economic structure (organisation).
• Full employment.
• Adjustment problems with respect to the formation of a customs union are disregarded.

Lipsey (1970) and Johnson (1973) both argued that Viner's traditional customs union theory focused mainly on the production effects of a customs union, with little regard to consumption. Work done on the consumption effects by these scholars, and by Gehrels (1956) revealed that a customs union, must necessarily result in changes in relative prices thus leading to some substitution between commodities, and it is therefore totally inaccurate to assume that commodities within a customs union are consumed in fixed proportions independent of the structure of relative prices.

Robson (1968) criticises the model on the basis that it takes no account whatsoever of the distribution of the potential benefits and or costs. But Ostergaard (1993) counteracts this claim and asserts that, “While it is correct that the theory does not explicitly address the issue, it is surely implied that every member will gain on the basis of their comparative advantage and that all will be better off with the union than without it.” Interestingly, earlier studies by Myrdal (1957) suggest that this sort of distribution of benefits from market integration, is significantly inappropriate. For instance, where any disparities exist among members of an integrating region, what will be of more importance and hence danger, to the relatively poorer areas is the “backwash” effect of the attraction of resources from the poorer to the richer areas, as opposed to the “spread” effects of increased economic activity (Myrdal, 1957, p.33-4).

Further criticism of the theory from Balassa (1961) pointed to the fact that these *static effects* account for a very small part\(^{18}\) of the total consequences of economic integration.

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\(^{17}\) Term borrowed from Kissanga (1991, p.11)

\(^{18}\) (Balassa, 1961) Author does not quantify how small is small
and that the *dynamic effects* are the principal rationale for economic integration. This takes us to the next theoretical model of regional integration that incorporates these dynamic effects: Development Integration.

2.3.2 Development Integration

This model encompasses various ways and means in which economic integration may be implemented in a way more suitable to the peculiarities entrenched in the developing world: These include different economic size and political systems of member countries, and different levels of industrialisation, and so on. The consequences of integration go beyond the simple "trade creation" and "trade diversion" static effects to the more dynamic effects which refer to a number of long term consequences of free trade arrangements affecting the growth rate of GDP (El-Agraa, A & Jones, A, 1981) such as economies of scale, enlarged competition and efficiency, intra-industry specialisation, and intensified investment activities (Corden, 1972).

At the heart of this model is the conscious and committed intervention by the regional partners to promote co-operation and interdependence. A higher degree of state intervention is required than is the case for market integration (Ostergaard, 1993, p.34). Furthermore, there are also conscious efforts to ensure an equitable distribution of the benefits associated with regional integration, even if it is to mean measures of a compensatory or corrective nature.¹⁹

The distribution problem can be dealt with through corrective measures (Robson, 1968) such as planned regional industrial development that favours the relatively less developed economies (Axline, 1977), funds or regional development banks that give priority to loans to these less developed members (Oden, 1993), and various other 'active' regional industrial initiatives.

¹⁹ For instance in the SACU where compensatory measures take the form of budgetary transfers to the relatively less developed members of the union.
The development model of regional co-operation and integration appears to carry more practical weight because it goes beyond the mere liberalisation of trade among members (which is basically what market integration entails) to include conscious initiatives and attempts at regional planning, regional industrialisation, complementary activities and so on, which seek to encourage and consolidate industrial performance in member states, particularly the relatively less developed ones.

This model, however, is not without its own problems. Hazlewood (1975, 1985) in relation to the economic integration experience in East Africa demonstrates that the problems of uneven gains from integration were not solved by the system of tax transfers to the relatively less developed member states. Furthermore, the problem of the unequal distribution of benefit has not been solved by budgetary transfers in the Southern African Customs Union (SACU) simply because, "industrial investments, both from within the union and from overseas, have invariably flowed to South Africa, by far the most developed member of SACU." (Ostergaard, 1993).

Against this background it becomes apparent that compensatory measures do not achieve the desired equitable distribution of the gains from integration. This brings us to the role of corrective measures such as planned regional industrial development which is, with respect to theory, the most effective corrective measure (Robson, 1968). But for such a strategy to be operationalised, it requires significant political commitment particularly from the relatively stronger member(s) of the integrating region. This could have prompted John Ravenhill (1979) cited in Ostergaard (1993) to observe that, "regional integration is frequently without enthusiastic domestic proponents: for politicians concerned with their national constituencies there are few rewards at the regional level, at least in the short term – the time horizon with which they must of necessity be concerned!" And given the fact that industry characteristics are different in each member country, the needs and lobbies of industrialists will be different therefore making planned regional industrial development quite difficult to achieve.

20 In fact, it is even suggested that the system may have succeeded in encouraging economic duplication of previous investments (Hazlewood, 1985).
Even when agreements between potentially integrating countries are reached (as has been the case within the SADC where a plethora of different protocols and agreements have been signed), slow implementation can dangerously undermine the spirit of co-operation, particularly with regards to the necessary harmonisation of trade and industrial policies.

2.3.3 Function-based Integration

The origins of this model can be attributed to David Mitrany who argued that rather than constructing an institutionalised supranational system, concrete areas should be identified in which states would see an immediate benefit from co-operation. “International organisations should be established to promote transnational activities around basic functional needs such as transportation, health and welfare, trade and production” (Mitrany, 1966). Thus, and as the ‘neo-functionalists’ were to reinforce later, cooperation among potentially integrating members of a region ought to be initiated in the technical, or basic functional areas mentioned above. A high degree of social and political maturity with respect to various interest groups within countries of an integrating region is also an attribute of this model. The ‘neo-functionalists’ however, went a step further and argued that once success was attained in these functional areas, it would result in a spillover effect to other areas (Ostergaard, 1993, p.40).

The spillover effect is said to work as follows; once sector co-operation has been achieved in one area, the resulting sector imbalance will create pressures for the initiation of integrative activities in other areas to offset the imbalance (Haas, 1968, p.313). The advantage of this ‘neo-functionalism’ is that it’s sector-by-sector approach minimises the problem relating to the distribution of costs and benefits among member states – this problem being evident in both the market, and development models of integration.

The problem associated with this model is that it appears it can only be successful if the country is modern, and a large degree of socio-political pluralism exists. This makes this

21 There is also a ‘neo-functionalist’ theory that is derived from this model.
model inappropriate for developing countries, particularly in Africa. Nye (1971) who proclaimed that the absence of pluralism renders development on a regional basis very difficult affirms this problem. The absence of interest groups with a regional agenda at heart implies that African heads of state are the supreme decision making authority and sadly therefore, "regional integration in Africa often stands and falls with the maintenance of cordial relationships between the personalities concerned" (Ravenhill, 1980, p.49). This appears to be the case in the SADC region where personal relationships between heads of states are at the heart of the attempts to forge regional co-operation and integration. Any fallout between regional political leaders has a very heavy bearing on the co-operation and the trade relations between the respective countries. It is therefore no surprise that integration schemes in Africa have so far failed to yield the expected results!

2.4 Distribution of the Benefits and Costs of Integration

Probably the most important difficulty in an integrating region is the inequitable distribution of the gains and the costs derived from regional co-operation and integration. Member states are simply not willing to bear the short term costs of integration because the short term is precisely the term politicians are concerned with for their political survival. Furthermore, certain industrial sectors in some of the relatively less developed countries of integrating regions (for instance Malawi, Mozambique, Zambia, etc. in the Southern African region) are too inferior to cope with the pressures of integrated regional trade. As Proff (1997) states, "de-industrialisation as a result of the liberalisation of foreign trade during the creation of regional integration can only be averted if the industrial sector is strong enough to ensure the survival of sufficient firms inter-related by sales and supply relationships despite increasing foreign competition." Therefore, a liberalised trade environment does not necessarily foster industrial growth and development as some countries, at least in the short term, might suffer the relocation effects of industries/firms shifting to relatively lower cost areas.

22 In the Southern African region, there is some fear from the South Africans that industries (especially those that are labour intensive) could shift from South Africa to say, Zimbabwe where labour costs are
Proff (1997) developed an indicative model of the industrial sector effects of the participating countries of an integrating region, where he distinguished between inter- and intra-industry trade. Inter-industry trade refers to either the importing or exporting of different goods whereas intra-industry trade is on the basis of simultaneous export and import of products from the same industry\(^\text{23}\). With emphasis on developing countries (such as the SADC), Proff & Proff (1996, p.90) suggested that industrial enterprises can be categorised into two sectors according to the nature of their production. The first is the traditional industrial sector that includes the processing of raw materials, and wage intensive production. This sector produces inter-industry traded goods on the basis of comparative advantage\(^\text{24}\). The second sector is referred to as the modern industrial sector which comprises firms engaged in import substitution in the areas of capital intensive production at a higher level of value added under the shelter of protection, and also includes firms whose production is competitive and exportable at a higher level of value added. Given this industrial sector categorisation, Proff & Proff (1996) were able to assess the inter- and intra-industry trade consequences of regional co-operation and integration.

Firms in the traditional industrial sector are the ones most likely to be negatively affected by regional integration, particularly if inter-industry trade exists, and the manufacturer produces inferior products using inefficient methods\(^\text{25}\). Why do these industries suffer the most? Well, not only does an agreement on regional co-operation and/or integration necessarily entail increased competition as a result of the liberalisation of the trade regime, but more importantly for such industries is that, “the harmonisation of the economic policies of the participating countries as a rule leads to the reduction of relatively lower (Sunday Independent Business Report, 07/03/99). This is contrary to the theory, which states that the less developed countries of an integrating region are the ones who bear the brunt!\(^\text{23}\) “This gives rise to an exchange of goods within, rather than between industries” Gandolfo (1987) in Proff (1993, p.492).\(^\text{24}\) Consistent with classical trade theory.

\(^{25}\) It is often the case that such firms/industries are government owned and are import substituting.
subsidies" (Proff, 1993, p.493). These industries have frequently relied heavily on state subsidies, and to a large extent have suffered from chronic internal disorganisation due to a high level of political patronage and expediency. Many of these firms/industries may be forced to leave the market.

The enterprises in the modern industrial sector are, however, in a better position to exploit the opportunities presented by regional integration since they have already successfully completed the import substitution phase and are diversifying their exports (Proff, 1996). The problem is that there are firms and industries in some relatively poorer developing countries who have already successfully completed the import substitution phase but are still unable to diversify their exports due to the effects of misguided government policies, problems relating to quality, and a generally negative macroeconomic environment. Some firms in the automotive industry in Zimbabwe, as we shall discuss in more detail later, are affected by this.

Within the SADC region, the industrial structures of member countries are weak, poorly developed and suffer from an extremely low level of diversification (except for South Africa, and to a lesser extent, Zimbabwe). All countries in the region are producing and exporting raw materials which are mainly traded with the developed world. Very little trade among members themselves takes place. In fact, Southern African intra-regional trade was estimated to be as low as 5% of total recorded trade in 1997.27

2.5 What are the Conditions Necessary for Successful Regional Integration?

It is of utmost importance that countries preparing to integrate be aware of their respective responsibilities so as to facilitate the conditions necessary for integration to

26 It must be remembered that the industries being talked about here are those that are unable to transform into efficient competitive industries. They are indeed the ones who manufacture poor quality products, normally use outdated machinery, and the only reason for existence is protection i.e. tariffs and quotas!
27 Abecor Country Reports, 1997, Economist Intelligence Unit.
succeed. Most frequently, national governments are preoccupied with national interests that are all too often in conflict with regional interests. A strong sense of nationalism among co-operating countries intending to integrate is a serious threat to the success of even lower levels of integration (such as the removal of trade barriers). Against this political backdrop it would seem that some necessary conditions for successful regional integration include:

- A supranational authority should be established with real powers to make member country governments implement any decisions of the authority.
- All member countries ought to perceive that they are all gaining from the arrangements.
- Governments should be prepared to cede some of their sovereignty to the supranational authority.
- Particular attention should be paid to all the possibilities of overcoming the tendency of manufacturing industry to polarise in the most industrially advanced country of the grouping.
- Member countries should at least be in broad agreement on economic systems (for instance integration cannot succeed between market and centrally planned economies).
- Political differences within the grouping ought to be containable.

As we shall also find out later, the situation in the Southern Africa region falls short of these conditions therefore posing a serious threat to the desired integration process.

As opposed to these political considerations, economic theory suggests that integration can succeed only if the member countries are at roughly similar levels of development so that the resulting costs and benefits are not skewed towards certain member states. Furthermore, a number of studies have pointed to the fact that certain economic conditions are necessary for integration to be successful.

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29 In many cases, and Africa being no exception, this is simply asking for too much!
30 By Robson (1980), Kissanga (1991), and others.
conditions need to be met if any meaningful and sustainable integration is to take place. These preconditions are as follows:

- The potential partners in the Union need to be already conducting a significant proportion of their trade with one another.
- Member country economies need at least to be potentially complementary.
- Each country’s extra-regional trade as a percentage of GNP needs to be relatively low.
- The individual country tariff rates prior to regional integration need to be high in comparison to the common external tariff.

It is generally accepted that the larger the size of the potential integrating region the greater the likelihood of obtaining beneficial results. Unfortunately, these conditions mentioned above are absent in most developing countries. A certain fact is that most developing country economies are competitive rather than complementary such that they compete in the production and export of primary commodities (they produce and sell more or less the same commodities and very little is sold between themselves).

In contrast, the member countries of the European Union (EU) had relatively similar production and trade patterns before embarking on the process of integration, and the share of intra-regional trade was high and has grown over the past three decades reflecting increased regionalisation. “The European Community” laments Wallace (1990), “is characterised by the relatively free play of market forces, a large ‘economic mass’, high per capita incomes, and large intra-regional trade flows. In addition, nowhere else in the world can one find such high economic interdependence between a large number of sovereign states.”
2.6 Conclusion

While the literature review presented above is by no means exhaustive, this chapter has provided a background to some of the theoretical foundations and arguments related to regional cooperation and integration. Although there are a range of perspectives on the necessary conditions and the consequences of regional integration, there does exist a degree of consensus regarding the costs and benefits of the different stages in the process of co-operation and integration. The relevance of these models for the Southern African region is considered in following chapters.
CHAPTER THREE

CROSSING THE RUBICON: Regional Integration in Southern Africa.

3.1 Introduction

This chapter provides an overview of the structure and nature of production, markets and trade within the SADC region with the hope of finding a basis to meaningfully assess the opportunities and threats that can be associated with the SADC Trade and Investment Protocol. The focal point of this thesis is the impact of a rapidly changing trade and investment environment on the Zimbabwean automotive sector. This chapter includes a subsection on automotive trade and investment in the SADC region ahead of the subsequent chapters (four and five) that go into more ‘Zimbabwe-specific’ detail.

The Southern African region is made up of fourteen countries however, the analysis in this paper will cover just twelve of the SADC member countries. Although the region comprises a large number of small economies (and markets), the combined population of the Southern African community stands at approximately 138 million covering a total area of 6,872,300 square kilometres, where the average annual population growth rate is estimated to be 2.8%. The entire African population is estimated to be at more than 740 million people (Population Division of the United Nations, Feb 1998) and therefore only about 18.5% of Africa’s total population is found in these twelve SADC countries.

31 Excluded are the newest members - Democratic Republic of Congo, and Seychelles - largely due to the unavailability of data. The countries included are Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Although strictly speaking a part of East Africa, Tanzania is included because of it’s strong historic (and current) linkages with the Southern African community.

3.2 The Structure of SADC Economies

The Southern African region is well endowed with natural resources but member states are generally poor and with a few exceptions, the rate of economic growth has been dismal. Among others, the reasons for this sad state of affairs are related to the colonial legacy, and poor post-independence policies.

Some of the basic population indicators are provided in Table 3.1;

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Population (millions)</th>
<th>Urbanisation Rate (%)</th>
<th>Adult Illiteracy Rate (%)</th>
<th>Life Exp. at Birth (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>11.1</td>
<td>Not available</td>
<td>Not available</td>
<td>46</td>
</tr>
<tr>
<td>Botswana</td>
<td>1.5</td>
<td>31</td>
<td>30</td>
<td>69</td>
</tr>
<tr>
<td>Lesotho</td>
<td>1.9</td>
<td>24</td>
<td>29</td>
<td>60</td>
</tr>
<tr>
<td>Malawi</td>
<td>10.4</td>
<td>13</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.2</td>
<td>41</td>
<td>17</td>
<td>70</td>
</tr>
<tr>
<td>Mozambique</td>
<td>15.5</td>
<td>33</td>
<td>60</td>
<td>48</td>
</tr>
<tr>
<td>Namibia</td>
<td>1.8</td>
<td>38</td>
<td>Not available</td>
<td>57</td>
</tr>
<tr>
<td>South Africa</td>
<td>41.5</td>
<td>52</td>
<td>18</td>
<td>64</td>
</tr>
<tr>
<td>Swaziland</td>
<td>1.1</td>
<td>Not available</td>
<td>23</td>
<td>58</td>
</tr>
<tr>
<td>Tanzania</td>
<td>28.9</td>
<td>25</td>
<td>32</td>
<td>53</td>
</tr>
<tr>
<td>Zambia</td>
<td>10.1</td>
<td>43</td>
<td>22</td>
<td>45</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>12.2</td>
<td>33</td>
<td>15</td>
<td>58</td>
</tr>
<tr>
<td>ALL SADC</td>
<td>137.2</td>
<td>33.3</td>
<td>29.3</td>
<td>55</td>
</tr>
</tbody>
</table>


Income and growth inequality between, and within SADC countries, continue to be huge problems. Most of the economies are still heavily dependent on agriculture and mining, and only Mauritius, South Africa, Swaziland, Zambia and Zimbabwe have a manufacturing sector comprising a sizeable percentage of GDP (Table 3.2);
Table 3.2: Structure of production of SADC economies (as a % of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>57.6</td>
<td>-</td>
<td>-</td>
<td>2.2</td>
<td>-</td>
<td>-</td>
<td>28.2</td>
</tr>
<tr>
<td>Botswana</td>
<td>33</td>
<td>5</td>
<td>4</td>
<td>28</td>
<td>54</td>
<td>45.5</td>
<td>4</td>
<td>4.7</td>
<td>39</td>
<td>41</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Lesotho</td>
<td>35</td>
<td>14</td>
<td>11</td>
<td>9</td>
<td>38</td>
<td>39.6</td>
<td>4</td>
<td>13</td>
<td>16.4</td>
<td>56</td>
<td>48</td>
<td>49.4</td>
</tr>
<tr>
<td>Malawi</td>
<td>44</td>
<td>35</td>
<td>36.6</td>
<td>17</td>
<td>20</td>
<td>0.0</td>
<td>-</td>
<td>13</td>
<td>13.4</td>
<td>39</td>
<td>45</td>
<td>43.1</td>
</tr>
<tr>
<td>Mauritius</td>
<td>16</td>
<td>11</td>
<td>10.8</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>14</td>
<td>23</td>
<td>24</td>
<td>62</td>
<td>56</td>
<td>60</td>
</tr>
<tr>
<td>Mozambique</td>
<td>-</td>
<td>64</td>
<td>35</td>
<td>0.6</td>
<td>0.2</td>
<td>0.2</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>21</td>
<td>51.7</td>
</tr>
<tr>
<td>Namibia</td>
<td>-</td>
<td>10</td>
<td>15.2</td>
<td>-</td>
<td>19</td>
<td>19</td>
<td>-</td>
<td>4</td>
<td>7.6</td>
<td>-</td>
<td>62</td>
<td>60.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>8</td>
<td>5</td>
<td>4.4</td>
<td>40</td>
<td>15</td>
<td>8.8</td>
<td>24</td>
<td>25</td>
<td>24.4</td>
<td>52</td>
<td>51</td>
<td>56.3</td>
</tr>
<tr>
<td>Swaziland</td>
<td>-</td>
<td>13.9</td>
<td>12.1</td>
<td>-</td>
<td>1.7</td>
<td>1.9</td>
<td>-</td>
<td>34.9</td>
<td>34.5</td>
<td>-</td>
<td>49.5</td>
<td>44.9</td>
</tr>
<tr>
<td>Tanzania</td>
<td>41</td>
<td>61</td>
<td>57.1</td>
<td>-</td>
<td>0.8</td>
<td>1.2</td>
<td>10</td>
<td>4</td>
<td>7.7</td>
<td>42</td>
<td>34</td>
<td>25.9</td>
</tr>
<tr>
<td>Zambia</td>
<td>11</td>
<td>16</td>
<td>16.5</td>
<td>32</td>
<td>18</td>
<td>18.2</td>
<td>10</td>
<td>24</td>
<td>24.5</td>
<td>34</td>
<td>37</td>
<td>34.8</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>15</td>
<td>20</td>
<td>9.8</td>
<td>-</td>
<td>6.5</td>
<td>12</td>
<td>21</td>
<td>26</td>
<td>37.6</td>
<td>49</td>
<td>49</td>
<td>36</td>
</tr>
</tbody>
</table>


Table 3.2 also shows that regional production is dominated by the services sector. This is reflected in Table 3.3 which shows the dominance of the services sector as a percentage of total employment.
South Africa – one of the recent nations to join the community (in 1995) – dominates the regional economy by far. South Africa accounts for 32% of the region’s population but up to 80% of its Gross Domestic Product with a per capita income which is about two-and-a-half times the average for the SADC (Financial Gazette, 16/07/98). The overwhelming dominance of South Africa is also reflected in its trade with the region, supplying between 75 and 90 percent of the imports of all SACU members, 40% of Malawi’s imports and between 15 and 20 percent of all imports of Mozambique, Zambia and Zimbabwe. In addition, South Africa generates half the electricity on the entire continent, its road network is estimated to be 40% of the SADC total, its rail network is 61% of SADC’s and South Africa accounts for 82% of all rail wagons found in the region, and 88% of all rail freight is handled by South Africa. South African ports handle between 80 and 89 percent of the region’s total port tonnage, and the country accounts for almost 87% of the region’s telephones (Bronstein et al, 1996).

Total intra-regional trade in Southern Africa is estimated to be between 5% and 10% of total trade and South Africa accounted for nearly three-quarters of intra-regional exports, but only 19% of intra-regional imports in 1995 (Bronstein et al, 1996). However, according to SADC’s 1997 annual report, regional trade as a percentage of global trade

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**Table 3.3: Sectoral data on Output and Employment for the SADC Region (average 1991-1993)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value of Output (Millions of US$)</th>
<th>Employment (1000's)</th>
<th>Sectoral employment as % of total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>19,223.5</td>
<td>7421</td>
<td>37.3</td>
</tr>
<tr>
<td>Mining</td>
<td>26,550.1</td>
<td>1130</td>
<td>5.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>97,986.3</td>
<td>2534</td>
<td>12.7</td>
</tr>
<tr>
<td>Services</td>
<td>140,512.4</td>
<td>8821</td>
<td>44.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>284,272.2</strong></td>
<td><strong>19906</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** Valentine (1998)

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33 This figure is understated since it does not include the many people involved in subsistence farming.

34 But it must be noted that NAFTA is dominated by the U.S.A but the problems of trade co-operation and integration have not been as pronounced!

35 Cited in the Zimbabwe Independent (12/09/98).
grew to 17.4% by mid 1996, representing a substantial increase in intra-regional trade in such a space of time. What is even more revealing is Kaire Mbuende’s (SADC Executive Secretary) assertion at the end of 1997 that, “almost 80% of trade in the region is already free, but the 20% includes critical products which are of major interest to the countries, so it is the opening up of the small pieces that is crucial” (Zimbabwe Independent, 12/09/98). These sensitive areas (referred to as ‘small pieces’) include products such as sugar, textiles, motor vehicles and components. In South Africa for instance, the automotive sector is regarded more as a developmental sector and therefore is not subject to the same tariff phase down rate as other product lines and is being significantly supported by the government’s Motor Industry Development Programme (MIDP).

South Africa’s largest trading partner in the region is neighbouring Zimbabwe. The trade is unevenly balanced in South Africa’s favour – exports are estimated to be as high as 10 times the imports from Zimbabwe, and at a rate of 7 to 1 to the region (Carim, 1997). It is estimated that South Africa’s trade surplus to the region rose to R13.3 billion in 1998 compared with R12.8 billion a year earlier (Business Day, 10/05/99). In South Africa, it is further estimated that between 60 000 and 70 000 manufacturing jobs are dependent on the region’s, particularly Zimbabwe’s, capacity to import (Department of Trade and Industry, 1998), and much of South Africa’s future manufacturing success and industrial development is inextricably linked to the region’s growth and development. Southern Africa’s drive towards economic development cannot be achieved unless the countries, assume a common trade and industrial policy stance.

South Africa’s exports to the region are largely manufactured products. In terms of overall trade, Zimbabwe is the most active regional player with high intra-regional trade figures as a percentage of total trade. Zimbabwe is a significant exporter to, and importer from, the region. Unfortunately, a lack of reliable data, and a high proportion of unrecorded trade in the region makes it extremely difficult to arrive at conclusive

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36 In fact, Zimbabwe is South Africa’s largest individual export market outside Europe.
37 In 1996 it was estimated to export almost 35% of total trade to the region, and imports 30% of her total imports from the region.
38 Smuggling, border jumping, customs/border corruption, etc.

Table 3.4: Major Exports and Imports in the SADC (1995-96)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Major export</th>
<th>% Share</th>
<th>Major imports</th>
<th>Import sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Crude oil</td>
<td>93.6</td>
<td>Capital equipment, foodstuffs, textiles, medicines.</td>
<td>USA, Cuba, Brazil, Portugal.</td>
</tr>
<tr>
<td>Botswana</td>
<td>Diamonds</td>
<td>67.2</td>
<td>Foodstuffs, vehicles, textiles, petroleum.</td>
<td>South Africa, U.K.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Manufactures</td>
<td>72.3</td>
<td>Manufactured products, live animals, machinery, petroleum.</td>
<td>South Africa.</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Clothing</td>
<td>81</td>
<td>Manufactured products, machinery, petroleum, vehicles.</td>
<td>U.K., South Africa, U.S.A.</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Prawns</td>
<td>44.6</td>
<td>Tobacco, machinery, manufactured products, tea, petroleum.</td>
<td>South Africa, Zimbabwe, Saudia Arabia, Portugal.</td>
</tr>
<tr>
<td>Namibia</td>
<td>Diamonds</td>
<td>35.5</td>
<td>Foodstuffs, vehicles, machinery, petroleum, chemicals, plastics.</td>
<td>South Africa.</td>
</tr>
<tr>
<td>South Africa</td>
<td>Gold</td>
<td>19.9</td>
<td>Machinery, vehicles, metals, oil, chemicals.</td>
<td>Germany, USA, Japan.</td>
</tr>
<tr>
<td>Swaziland</td>
<td>Sugar</td>
<td>16.7</td>
<td>Manufactured products, machinery, petroleum, foodstuffs.</td>
<td>South Africa.</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Coffee</td>
<td>27.3</td>
<td>Manufactured products, machinery, petroleum, foodstuffs.</td>
<td>Saudia Arabia, Zimbabwe, U.K., Japan.</td>
</tr>
<tr>
<td>Zambia</td>
<td>Copper</td>
<td>76.3</td>
<td>Consumer goods, fuel, transport equipment, machinery.</td>
<td>South Africa, Zimbabwe, U.K., Japan.</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Tobacco</td>
<td>21.6</td>
<td>Finished manufactured products, petroleum, machinery, transport equipment.</td>
<td>South Africa, U.K., Japan, USA, Germany.</td>
</tr>
</tbody>
</table>

Source: Mayer and Thomas (1997), and Standard Bank (1997-98)

As can be seen from the table above, the country with by far the largest economy – South Africa – does not import much from the region. SADC members who are not part of the South African Customs Union (SACU), particularly Zambia and Zimbabwe, have encountered great difficulties in trying to export to the most lucrative market in the region. The South African government has acknowledged the unsustainable trade deficits
which many SADC countries are running with South Africa, and the Department of Trade and Industry (DTI) has committed itself to normalising the trade situation, and indeed is willing to encourage the growth of the manufacturing sector in neighbouring countries.

In terms of export markets, primary commodity exports are channelled mainly to markets outside Africa, particularly to Europe and North America (Table 3.5).

Table 3.5: Direction of SADC Exports (1995) in US$ (millions).

<table>
<thead>
<tr>
<th>SOURCE COUNTRY / REGION</th>
<th>World $M</th>
<th>Europe (%)</th>
<th>North America (%)</th>
<th>Japan (%)</th>
<th>Developing Countries 39 (%)</th>
<th>Africa (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>3 105,4</td>
<td>25,1</td>
<td>52,6</td>
<td>0,1</td>
<td>22,2</td>
<td>1,5</td>
</tr>
<tr>
<td>Malawi</td>
<td>454,0</td>
<td>46,9</td>
<td>16,5</td>
<td>10,0</td>
<td>26,6</td>
<td>9,5</td>
</tr>
<tr>
<td>Mozambique</td>
<td>239,8</td>
<td>31,3</td>
<td>13,0</td>
<td>6,7</td>
<td>4,9</td>
<td>12,0</td>
</tr>
<tr>
<td>South Africa</td>
<td>17 052,0</td>
<td>55,2</td>
<td>12,4</td>
<td>10,8</td>
<td>21,6</td>
<td>6,1</td>
</tr>
<tr>
<td>Tanzania</td>
<td>404,6</td>
<td>59,4</td>
<td>4,5</td>
<td>4,5</td>
<td>31,6</td>
<td>7,1</td>
</tr>
<tr>
<td>Zambia</td>
<td>1 347,5</td>
<td>34,5</td>
<td>1,6</td>
<td>29,1</td>
<td>34,8</td>
<td>11,9</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1 467,6</td>
<td>44,1</td>
<td>7,3</td>
<td>5,5</td>
<td>42,7</td>
<td>17,2</td>
</tr>
<tr>
<td>All Sub-Saharan Africa</td>
<td>54 657,2</td>
<td>51,2</td>
<td>22,1</td>
<td>5,6</td>
<td>15,4</td>
<td>7,5</td>
</tr>
<tr>
<td>All Developing countries</td>
<td>708 947,0</td>
<td>25,5</td>
<td>24,0</td>
<td>12,0</td>
<td>27,2</td>
<td>2,6</td>
</tr>
</tbody>
</table>


Table 3.5 illustrates that the European Union is the region’s largest export market, and it further confirms the low levels of intra-regional, and intra-African trade. The question that this information poses is, can SADC regional integration succeed if there are such low levels of intra-regional trade taking place prior to integration?

39 Includes Latin America, Asia, Caribbean countries, etc.
3.3 The Dawn of a New Era: The SADC Trade and Investment Protocol

In August of 1996, the Heads of States of the Southern African Development Community gathered in Lesotho and signed the SADC Trade and Investment Protocol. After years of negotiations and considerable internal transformation of the nature and focus of the SADC organ itself, the trade protocol was to facilitate the harmonisation of trade and economic policies with the objective of gaining the benefits associated with a larger regional market, particularly the investment that such a market has the potential to attract.

The objectives of the SADC Trade and Investment Protocol are to:

- Further liberalise intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements.
- Ensure efficient production within SADC reflecting the current and dynamic comparative advantages of its members.
- Contribute towards the improvement of the climate for domestic, cross-border and foreign investment.
- Enhance the economic development, diversification and industrialisation of the region, and;
- Establish a free trade area in the SADC region.

Although this protocol is not yet fully operational, its signature by the SADC Heads of State marked the beginning of the implementation process. The main objective of the protocol is to establish a free trade area within eight years and this is to be achieved through the phased reduction and eventual elimination of tariff and non-tariff barriers to intra-SADC trade. Evidently, such a landmark agreement seeks to consolidate regional co-operation and integration.
3.4 The Impact of the SADC Trade and Investment Protocol

A changing trade and investment environment will impact on growth, incomes, and employment, both at the level of the individual country, and at the regional level. Additionally, at the micro level, one would expect adjustments in the structure, nature, and profile of firms and industries across member states. There are associated costs and benefits as the SADC trade protocol unfolds into a free trade area in Southern Africa.

Evans (1998) used initially a partial equilibrium model, and later a simple Computable General Equilibrium model (CGE) model to estimate the benefits of a free trade area in Southern Africa. Using trade and tariff data, the Southern African free trade area shows an increase in employment and income of about 0.24%, an increase in intra-regional trade of around 12.5%, and little change in imports from the rest of the world. This suggests that a significant amount of trade creation takes place although no direct estimate of the amount of free trade is provided by the model.

Furthermore, the model, as Evans (1998) himself mentions, leaves out a number of important effects such as the utilisation of excess capacity, or the ‘mopping up’ of unemployed labour (this is because the full macro income and expenditure circuit is excluded from the model), and the effects of the re-investment of initial gains – which are considered to be dynamic effects. Using the CGE model for full employment, the free trade area results in a measured welfare increase of between 0.24% of final demand for a low price elasticity of export demand, and 0.12% for a high elasticity. This model estimates that intra-SADC trade increases by 9% whilst trade with the rest of the world hardly changes. The CGE results on the intra-SADC trade increase are a bit smaller than the partial equilibrium results, and this can be attributed to the fact that the partial equilibrium findings do not include a balance of payments adjustment after the first impact effects (Evans, 1998). Although the results of these two models have been the

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40 Data used was 1991-93 – said to be fairly recent, and reliable.
41 The model was used to estimate the effects of the formation of a SADC free trade area on output, trade, employment and customs revenue for 27 sectors in eight SADC countries.
subject of debate and criticisms by various scholars\textsuperscript{43}, they nevertheless provide a useful basis to determine the suitability and effectiveness of a Southern African free trade area.

A key question is how are comparative advantages distributed across the Southern African region? A preliminary investigation for South Africa and Zimbabwe (the two relatively well developed and similar industrial structures in Southern Africa) points out that Zimbabwe has a regional comparative advantage in labour-intensive sectors, while South Africa (and to a large extent the BLNS countries) have a comparative advantage concentrated in the more capital-intensive manufacturing sectors (Cattaneo, 1998). The implication is that labour-using manufacturing and service activities ought to be located in Zimbabwe therefore leading to trade creation. But Greenaway (1991) who is cited in Cattaneo (1998) argued that intra-industry trade is more likely to be recorded in capital-intensive than labour-intensive product lines. In Greenaway's world, Zimbabwe could therefore be heading for a disaster.

A SADC country-by-country analysis of comparative advantage by Valentine (1998) who measured the respective shares of each sector's exports in each member country, obtained some rather interesting results. The study concludes that at an aggregate level, almost all the countries in the SADC region have a comparative advantage in agricultural exports to the rest-of-the-world, and at a broad sectoral level, only Botswana, Namibia and Swaziland have a comparative advantage in manufacturing exports. Furthermore, the study suggests that manufacturing sectors in which the SADC has a comparative advantage are: Non-ferrous metals, basic iron and steel, clothing, food products, paper and wood products, and other manufactured products\textsuperscript{44}, and that a strong potential comparative advantage\textsuperscript{45} exists in the SADC in certain manufacturing sectors such as leather products, beverages, printing and publishing, and wood products.

\textsuperscript{42} Elasticity refers to the responsiveness of export demand when incomes, prices and prices of other goods change.

\textsuperscript{43} Such as Cattaneo (1998).

\textsuperscript{44} This sector includes the manufacture of miscellaneous items such as musical instruments, toys, crayons, brooms, sports goods, artificial flowers etc. According to Valentine (1998), exports in this category were dominated by South Africa (80\%) followed by Angola (9\%).

\textsuperscript{45} The comparative advantage data is derived from measuring each sector's share of total exports and therefore making it possible to estimate regional and international comparative advantage.
A study commissioned by the African Development Bank in 1993 identified certain products produced in Southern Africa where trade might increase in a regional group from an overall point of view. These goods included paper and board, machinery, chemicals, pharmaceuticals, furniture, metals, fabrics and vehicles/components. A problem is that most of South Africa's imports from SADC are raw materials or semi-processed, standard items (Cassim, 1995) while her exports to the region are mainly manufactures, and of a more specialised nature. Therefore this does suggest that there could be trade diversion that is particularly severe on the countries trapped in the domain of raw materials and/or semi-processed, standard items.

The SADC Trade and Investment Protocol, although signed, is yet to be ratified by all member states. By October of 1998 only four member countries had ratified the agreement – Botswana, Mauritius, Tanzania and Zimbabwe. Among other factors, the delays in ratifying the protocol can be ascribed to issues surrounding the Common Market of Eastern and Southern Africa (COMESA) and SACU, resistance from some industry federations and labour movements, and political bickering, both overt and covert, amongst the region’s political leadership.

The protocol is set to create a free trade area in Southern Africa by removing tariff barriers and other related impediments that have stifled economic growth, and such a transformation itself requires a radical transformation of the mentality of national leaders who historically have guarded jealously against any limitations on national sovereignty.

3.5 Automotive Production and Trade in the SADC Region

The automotive industry in the region, small as it is by world standards, is dominated by South Africa whose industry dates back to the 1920's when Ford and General Motors established assembly plants in Port Elizabeth. South Africa has the largest industry in the region, and is also the largest market and the principal player in automotive trade within
the SADC region. The automotive sector in Zimbabwe—which is second to South Africa in the region—dates back to the 1960's when a small scale SKD plant was established in Harare. Outside South Africa and Zimbabwe (and now Botswana with the new R300 million Hyundai CKD plant in Gaborone) very little automotive production takes place.

The automotive industry in Zambia has suffered from a lack of competitiveness and an acute shortage of foreign exchange. The liberalisation programme in Zambia brought with it reduced tariff protection which led to a proliferation of, and an overall increase in, imports. A study under the auspices of the United Nations Industrial Development Organisation (1996) found that due to the easier access to imports under liberalisation, vehicle assembly in Zambia is simply "untenable". This could be the result of an industry, established in the early 1970's, that moved straight from simple assembly to liberalisation without passing through the necessary stages of manufacture, and exports.

Table 3.6 is adapted from the work done by Rhys (1996) which puts the Southern African countries into context with other developing countries. He suggests that the automotive industry in developing countries has typically developed through a number of stages (as is illustrated in Table 3.6). It can be observed that, comparatively speaking, the developing countries in Asia and Latin America have witnessed a more rapid and systematic growth and development of their respective automotive industries.

46 Some want a free trade area stretching into East Africa, while others are quite happy to have the free trade area strictly in the existing SADC region, and then there are others who suffer from a membership dilemma between the two.
47 For instance, Afinta Motor Corporation operates a small assembly plant in Swaziland that has the capacity to assemble 150 CKD buses and trucks a month, but is currently only operating at 30% capacity (Business Day, 30/05/97)
Table 3.6  Nature of Automotive Operations in Selected Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Assembly</th>
<th>Manufacture</th>
<th>Export</th>
<th>Liberalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>1919 - 1956</td>
<td>1956 - 1972</td>
<td>1972 - 1990</td>
<td>1990 -</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1956 - 1965</td>
<td>1965 - 1994</td>
<td>1994 -</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>1950 - 1960</td>
<td>1960 - 1995</td>
<td>1985 -</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>1974 - 1994</td>
<td>-</td>
<td>1994 -</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>1960 - 1970</td>
<td>1970 -</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rhys, 1996.

The average vehicle per person ratio in the SADC is low (Table 3.7).

Table 3.7: Vehicles in Use in Southern Africa

<table>
<thead>
<tr>
<th>Region/country</th>
<th>Passenger cars ('000)</th>
<th>Persons per car</th>
<th>Commercials ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>3 900</td>
<td>12</td>
<td>1 700</td>
</tr>
<tr>
<td>Botswana</td>
<td>60</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Lesotho</td>
<td>5</td>
<td>368</td>
<td>13</td>
</tr>
<tr>
<td>Namibia</td>
<td>59</td>
<td>27</td>
<td>63</td>
</tr>
<tr>
<td>Swaziland</td>
<td>23</td>
<td>36</td>
<td>17</td>
</tr>
<tr>
<td>Rest of SADC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>125</td>
<td>86</td>
<td>45</td>
</tr>
<tr>
<td>Malawi</td>
<td>17</td>
<td>520</td>
<td>18</td>
</tr>
<tr>
<td>Mauritius</td>
<td>41</td>
<td>27</td>
<td>44</td>
</tr>
<tr>
<td>Mozambique</td>
<td>85</td>
<td>176</td>
<td>28</td>
</tr>
<tr>
<td>Tanzania</td>
<td>49</td>
<td>600</td>
<td>39</td>
</tr>
<tr>
<td>Zambia</td>
<td>101</td>
<td>86</td>
<td>69</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>302</td>
<td>35</td>
<td>87</td>
</tr>
</tbody>
</table>


Rhys (1996) estimates that as of 1994 there were 10.6 million passenger cars and 5.5 million commercial vehicles in use in Africa, and Southern Africa accounted for 62% and 78% of these vehicles respectively. Africa’s largest market for passenger cars and commercial vehicles is South Africa.
In terms of automobile production, available figures are summarised for the SADC region, and for the rest of Africa in Table 3.8:

Table 3.8 Automative Production in Africa (1994)

<table>
<thead>
<tr>
<th>Country</th>
<th>Passenger cars</th>
<th>Commercial Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>190716</td>
<td>112450</td>
</tr>
<tr>
<td>Zambia</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>3700</td>
<td>4800</td>
</tr>
<tr>
<td>SADC TOTAL</td>
<td>194616</td>
<td>117450</td>
</tr>
<tr>
<td>Rest of Africa;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>15000</td>
<td>20000</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>-</td>
<td>171</td>
</tr>
<tr>
<td>Kenya</td>
<td>1247</td>
<td>3802</td>
</tr>
<tr>
<td>Morocco</td>
<td>5288</td>
<td>8040</td>
</tr>
<tr>
<td>Nigeria</td>
<td>4858</td>
<td>1592</td>
</tr>
<tr>
<td>TOTAL</td>
<td>26393</td>
<td>33605</td>
</tr>
</tbody>
</table>

Source: Rhys, 1996.

South Africa also dominates trade in this sector, and most of the trade takes place between South Africa and Zimbabwe. Outside Europe, Zimbabwe is South Africa’s most significant market for components. Component exports to Zimbabwe have risen from 4.4% of total component exports in 1995 to 8% in 1998 (DTI, 1998). In 1996, Zimbabwe imported vehicles and components worth a massive Z$4 billion, and 70% of these imports were from South Africa (Central Statistical Office, 1997). In terms of individual components, Zimbabwe was the destination of 30%, 19% and 16% of total South African component exports of filters, gauges/instruments, and tyres respectively (Barnes, 1998). All these component exports are destined for the aftermarket.

48 These are 1994 figures. Since then Hyundai has begun the assembly of the Hyundai and Volvo models for the SADC market (Business Report, Cape Times, 11/08/98), Swaziland is also now involved in the assembly of medium to heavy commercial vehicles (Business Day, 30/05/97), and the Zambian industry has almost ceased to exist (Rhys, 1996).
The Southern African region has also been the largest market for South African vehicle exports. Again, Zimbabwe had on average the highest percentage share based on South African export values in the period 1995-1997, as is reflected in Table 3.9:

Table 3.9: Size of South African vehicle exports to the SADC region.
(percentage share based on export values)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Light vehicle exports</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Malawi</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>4</td>
<td>8</td>
<td>19</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mozambique</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>7</td>
<td>14</td>
<td>14</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Tanzania</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Zambia</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>27</td>
<td>36</td>
<td>18</td>
<td>8</td>
<td>57</td>
<td>36</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td>Rest of the World</td>
<td>52</td>
<td>38</td>
<td>54</td>
<td>73</td>
<td>7</td>
<td>12</td>
<td>19</td>
<td>37</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>


The SADC is a significant market for South African cars and commercial vehicles despite being a relatively underdeveloped region. On the other hand, exports of Zimbabwean components and vehicles are minimal\(^49\), and the little exports that do take place are not into the most lucrative SADC market (South Africa) but are instead destined for the relatively smaller and poorer countries such as Malawi, Mozambique and Zambia. With respect to intra-SADC automotive trade balances, all countries in the Southern African region (except of course for South Africa) import considerably more automotive products

\(^{49}\) Estimated to be between 1.5% and 5.5%, and 1.5% and 3% respectively, as a percentage of local production (survey data, 1999).
than they export suggesting that huge automotive trade deficits exist in individual member states.

3.6 Conclusion

This chapter has provided a brief overview of the structure of SADC economies, particularly the structure of trade, and specifically, automotive trade. Various aspects, implications and issues regarding Southern Africa's moves towards a free trade area have been highlighted, and this has been done to provide sufficient background to the analysis of the impact of moves towards a SADC free trade area on the Zimbabwean automotive industry.
CHAPTER FOUR

The Development and Performance of the Zimbabwean Automotive Industry: Are there competitive advantages in this Sector?

4.1 Introduction

The global automotive industry - in terms of both the production of vehicles and manufacture of components - is considered to be one of the world's largest. The African industry however is relatively insignificant by world standards (representing a paltry 1% of world automotive production with South Africa accounting for over 70% of this amount). The industry in Zimbabwe is far smaller accounting for only an estimated 0.01% of the world automotive industry. In 1998, the industry's asset value was estimated to be Z$1.85bn comprising of four operating vehicle assemblers, and fourteen component manufacturers. Excluded from this figure is the general motor trade consisting of garages/workshops, dealerships, importers, etc. Because of it's small size and it's dependence on high tariff barriers, the automotive industry sector cannot escape the various consequences that are associated with moves towards free trade in the southern African region.

Section 3.5 in the previous chapter provided a brief overview of automotive trade and investment in the region. The purpose of this chapter is to examine the development and competitiveness of the automotive industry sector in Zimbabwe. Following a brief background and market overview of the industry, the study moves on to analyse the

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50 Using 1990 data.
51 This is more the case for the vehicle assembly sub-sector than it is for the component manufacturing sub-sector.
impact of policy (particularly trade and investment policies) on the development of the industry with the aim of establishing areas of potential advantage.

The automotive industry in Zimbabwe dates back to the late 1950's when a medium and heavy commercial vehicle plant was established in Harare (then called Salisbury). Due to the relative importance of commercial vehicles in a largely rural and agriculturally dependent country, Southern Rhodesia at the time moved away from the total reliance on CBU imports to the simple assembly of CKD kits. By 1967, the industry had grown to include two other assembly operations (producing mainly passenger cars and light commercial vehicles) and a number of firms producing components (mainly for the aftermarket) had emerged. The latter included the production of tyres, glass, batteries, exhausts and jacks. The industry, despite being characterised by low volumes and complete absence of economies of scale expanded further after 1965 using import-substituting measures (high tariffs on imports, and incentives for domestic production). Most prominent was the emergence of other component manufacturing firms (such as brake and clutch equipment, interior trim and rubber mouldings, bus body building, and so on) and the mushrooming of garages/workshops, a large and expanding second hand car market, dealerships, informal automotive activities, and the general motor trade.

4.2. Market Analysis

4.2.1 Sales and Production

The vehicle market in Zimbabwe has grown steadily over the years. New vehicle sales in Zimbabwe peaked at almost 16,500 units in 1997 having risen from a low base of an estimated 6,500 in 1980.

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52 The year that the rebel Rhodesian Front (RF) government announced the Unilateral Declaration of Independence (UDI) from Britain.
53 Information gathered from company/industry interviews.
Table 4.1 Vehicle Sales in Zimbabwe

<table>
<thead>
<tr>
<th>Year</th>
<th>Cars</th>
<th>Commercial vehicles</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3800</td>
<td>2700</td>
<td>6500</td>
</tr>
<tr>
<td>1981</td>
<td>4400</td>
<td>3900</td>
<td>8300</td>
</tr>
<tr>
<td>1982</td>
<td>5100</td>
<td>5900</td>
<td>11000</td>
</tr>
<tr>
<td>1983</td>
<td>4800</td>
<td>5700</td>
<td>10500</td>
</tr>
<tr>
<td>1984</td>
<td>4900</td>
<td>4000</td>
<td>8900</td>
</tr>
<tr>
<td>1985</td>
<td>3400</td>
<td>5800</td>
<td>9200</td>
</tr>
<tr>
<td>1986</td>
<td>3400</td>
<td>5600</td>
<td>9000</td>
</tr>
<tr>
<td>1987</td>
<td>2700</td>
<td>5400</td>
<td>8100</td>
</tr>
<tr>
<td>1988</td>
<td>2600</td>
<td>5900</td>
<td>8500</td>
</tr>
<tr>
<td>1989</td>
<td>3900</td>
<td>6000</td>
<td>9900</td>
</tr>
<tr>
<td>1990</td>
<td>3700</td>
<td>5800</td>
<td>9500</td>
</tr>
<tr>
<td>1991</td>
<td>3600</td>
<td>4600</td>
<td>8200</td>
</tr>
<tr>
<td>1992</td>
<td>3600</td>
<td>4600</td>
<td>8200</td>
</tr>
<tr>
<td>1993</td>
<td>3600</td>
<td>4800</td>
<td>8400</td>
</tr>
<tr>
<td>1994</td>
<td>4300</td>
<td>5600</td>
<td>9900</td>
</tr>
<tr>
<td>1995</td>
<td>3900</td>
<td>6900</td>
<td>10800</td>
</tr>
<tr>
<td>1996</td>
<td>4900</td>
<td>8100</td>
<td>13000</td>
</tr>
<tr>
<td>1997</td>
<td>5500</td>
<td>11000</td>
<td>16500</td>
</tr>
<tr>
<td>1998</td>
<td>4400</td>
<td>7700</td>
<td>12100</td>
</tr>
<tr>
<td>1999 (est)</td>
<td>2000</td>
<td>5000</td>
<td>7000</td>
</tr>
</tbody>
</table>


The growth in new vehicle sales was phenomenal from between 1994 and 1997 where an annual average growth rate of almost 20% was recorded. This can be attributed to two good rainy seasons which boosted vehicle demand by farmers and companies, and trade liberalisation that brought about greater variety, and competitive prices. New vehicle sales dropped in 1998 and are expected to sink to as low as 7000 units in 1999. These low expectations are mainly attributed to the collapse of the Zimbabwe Dollar which has led to phenomenal increases in domestic prices of both locally assembled vehicles, and imported ones.

Unfortunately there is no available data on the size, nature and value of the second hand vehicle market, and given it's importance in developing countries like Zimbabwe that have low incomes per head, it is not a sector that can be ignored. As much as possible, and subject to the data constraints, this segment of the market shall be referred to.
The Zimbabwe light vehicle market is dominated by two assemblers: Willowvale Mazda Motor Industries (WMMI) and Quest Motor Manufacturing. In 1997 they assembled 18,000 light vehicles, and the value of vehicle production in that year was Z$4.5bn.

**Table 4.2 Company Profiles**

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Ownership</th>
<th>Makes</th>
<th>% Market share '98</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willowvale</td>
<td>Foreign/Govt.</td>
<td>Mazda - 18 models</td>
<td>40</td>
</tr>
<tr>
<td>Quest Motors</td>
<td>Domestic/foreign partnership</td>
<td>Peugeot, Nissan, Land Rover</td>
<td>31</td>
</tr>
</tbody>
</table>

Heavy protection has resulted in the proliferation of models/makes to the extent where all assemblers (including the assemblers of medium and heavy commercial vehicles) build a variety of models in a single assembly plant.

Production figures for automotive assembly in Zimbabwe indicate the complete absence of economies of scale, and an over-reliance on tariff protection for economic survival. For confidentiality reasons, the assemblers were unable to release production schedules, except to give current estimated production figures. The industry is projected to produce just over ten thousand vehicles in 1999 which represents a severe decline from the eighteen thousand vehicles produced in 1997.

A total market analysis of the Zimbabwean passenger car and light commercial vehicle market approximately reveals the following:

---

54 Passenger cars and light-to-medium commercial vehicles.
55 Approximately 30% of these vehicles were unsold by the end of the year and were carried on to the following year by car dealers and distributors.
56 Estimates obtained during interviews with the CZI, CSO, and other industrial stakeholders.
The large size of the import market is accounted for mainly by second hand imports from Japan, established dealerships/distributorships that import CBU’s for sale in Zimbabwe (e.g. Toyota - Zimbabwe), and to a lesser extent, returning residents. Overall, most vehicle imports and components/spare parts are from neighbouring South Africa who enjoy a large automotive trade surplus with Zimbabwe, and indeed the rest of the region.

The medium to heavy commercial vehicle market is dominated by W. Dahmer and Company (Pvt) Ltd which enjoys up to 80% of total market share. This assembly plant has the capacity to produce up to 400 buses and trucks a year but it is currently producing 15 units a month. A much smaller assembly operation run by the Hubert Davies Co. also deals with heavy commercial vehicles and agricultural implements, but recent tough times of macroeconomic instability, and a financially depressed local market have rendered the operation unviable, and in the words of the company’s Commercial Manager, “There isn’t much assembly left within our fold to talk about. Assembly operations have been scaled down dramatically and we are now focusing our energies on

57 Included under the heading of ‘Other imports’ are second hand imports from Japan, which is a scheme that became very popular from 1995 onwards.
our core activities such as mining in some of the relatively smaller towns in the country."\(^{58}\)

### 4.2.2 National vehicle park

Recent figures from the Central Vehicle Registry puts Zimbabwe's vehicle population at just under 600 000 vehicles, a substantial increase since 1990 (Figure 4.2). Commercial vehicles have gained tremendously in popularity and this is unsurprising because of the strong agricultural and rural nature of the country, and more recently, because of the deteriorating state of the roads\(^{59}\).

**Fig 4.2**

![National Vehicle Population of Zimbabwe](image)

Source: Central Vehicle Registry, 1999.

Estimates by Riddell (1996) suggest that 75% of all passenger cars, 60% of commercial vehicles, 65% of tractors, and 55% of the buses on the roads were well over ten years old. Such scenarios could provide opportunities for the vehicle assemblers to capitalise on the

---

\(^{58}\) Interview with a leading executive of the company.

\(^{59}\) Has led to a huge demand for light commercial vehicles, especially the four-wheel drives.
ageing fleet, or for the component producers who already depend almost entirely on the aftermarket for spare parts (see section 4.3).

4.2.3 Affordability of Vehicles in Zimbabwe

"The single most important constraint that limits growth of the market, is affordability"\textsuperscript{60}

This is a crucial statement, particularly with reference to the Zimbabwe automotive market. Private companies are still by far the most significant buyers of vehicles, followed by government and its various departments, and the wealthy commercial farmers. Prices of vehicles are simply way out of reach for the ordinary man on the street. Even professionals such as doctors, lawyers, accountants, and so on, can seldom afford to purchase a new vehicle. And to add insult onto injury, a depreciating exchange rate in the past six months has contributed very seriously to vehicle price inflation, and interest rates that have climbed steadily and currently are between 55\% and 60\% (Financial Gazette, 20/08/99). To put the issue of affordability into perspective, consider the following comparisons;

\textsuperscript{60} Interview with an executive from Willowvale Mazda Motor Industries (WMMI) in February 1999.
### Table 4.3 South Africa/Zimbabwe Price Comparisons

<table>
<thead>
<tr>
<th></th>
<th>ZIMBABWE</th>
<th>SOUTH AFRICA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prices of New Cars</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiat Uno</td>
<td>13 900</td>
<td>10 000</td>
</tr>
<tr>
<td>Nissan Hardbody (2.0 SWB)</td>
<td>22 200</td>
<td>15 600</td>
</tr>
<tr>
<td>Toyota Corolla (180i GSE)</td>
<td>33 900</td>
<td>17 000</td>
</tr>
<tr>
<td><strong>Prices of Second-Hand Cars</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BMW 318i (1989)</td>
<td>8 800</td>
<td>3 600</td>
</tr>
<tr>
<td>Mazda 323 (1989)</td>
<td>3 600</td>
<td>2 400</td>
</tr>
<tr>
<td>Toyota Cressida (1989)</td>
<td>8 100</td>
<td>3 000</td>
</tr>
<tr>
<td><strong>General Economic Indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI Inflation</td>
<td>40%</td>
<td>9%</td>
</tr>
<tr>
<td>Prime Interest Rate</td>
<td>45%</td>
<td>19%</td>
</tr>
<tr>
<td>Per Capita GNP (1997)</td>
<td>750</td>
<td>3 400</td>
</tr>
</tbody>
</table>

(Notes: Figures are quoted in US dollars, at 1998 exchange rates.)


Zimbabwe vehicle prices are on average about 60% and 120% higher on new and second-hand vehicles, respectively. The Financial Gazette (11/08/99) reported that a brand new Mazda 323 in South Africa sells for around Z$260 000 while a locally assembled version in Zimbabwe sells for Z$400 000 representing a 54% price differential - the 'real' costs of protecting uneconomic and inefficient assembly plants, and also a reflection of the under-valuation of the Zimbabwe Dollar.
4.3 Policy Developments

In most respects, Zimbabwe has followed a programme of import substitution similar to that adopted in other developing countries such as South Africa, and in Latin America. High tariffs were placed on CBU's which when combined with a steadily growing market, led to the establishment of assembly plants and various component producers. Production was aimed entirely at the domestic market and although these operations were in many cases profitable, they were (and still are) extremely small in international terms with correspondingly high unit costs. In addition, government systems of industrial licensing\(^61\) and resource allocation, and the licensing restrictions imposed by ‘parent’ companies (countries)\(^62\) had the effect of compounding the difficulties of achieving higher and more economic volumes. Not only did this add significantly to production costs, but it virtually curtailed the expansion of export opportunities.

The general economy of Zimbabwe has been characterised by stringent government controls since 1965. These control measures had become the easiest way for the regime to influence socio-economic and political activities, particularly as they were reeling under punitive sanctions. Relations with South Africa nevertheless remained cordial. Indeed, during this period the importation of motor vehicles (CBU’s), vehicle kits, and components/parts was controlled by government. Government also controlled, on a discretionary basis, the allocation of foreign exchange.

The assembly operations that were established were basically simple-assembly\(^63\), relatively unsophisticated with extremely low local content, and with production lines producing uneconomic volumes. They were established to serve only the domestic market and have long been forced to obtain tooling and components for old models at lower

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\(^61\) For instance, government could restrict the issuing of licenses to its preferred organisations or individuals therefore stifling competition.

\(^62\) As an example, a licensing agreement between a local assembler and a ‘parent’ company in say, Japan (Mazda). The agreement would normally stipulate that the assembler uses specific components sourced from the ‘parent’ company’s suppliers and not the local suppliers. Furthermore, licenses may prohibit exports of locally assembled vehicles to markets where the ‘parent’ company is already exporting to.
A survey of Zimbabwean vehicle assemblers and component producers undertaken as part of the research for this thesis shows that the vehicle assemblers have been under severe pressure from cheaper imports due to the relaxation of tariffs under the trade liberalisation programme. This probably explains why all the assemblers interviewed agreed that diversifying the product line, improving process technology, reducing employment and establishing domestic and foreign partnerships were their most competitive responses to the economic reforms of the 1990's. As the economy became more open, the capacity of the assembly industry to respond to fresh challenges was being severely tested.

**Fig 4.3**

Competitive Responses to the Economic Structural Adjustment Programme (ESAP)

<table>
<thead>
<tr>
<th>Barriers Responses</th>
<th>% of Firms Surveyed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded imports</td>
<td></td>
</tr>
<tr>
<td>Expanded exports</td>
<td></td>
</tr>
<tr>
<td>Expanded output</td>
<td></td>
</tr>
<tr>
<td>Increased employment</td>
<td></td>
</tr>
<tr>
<td>Increased investment</td>
<td></td>
</tr>
<tr>
<td>Diversified product line</td>
<td></td>
</tr>
<tr>
<td>Improved plant efficiency</td>
<td></td>
</tr>
<tr>
<td>Improved product/process</td>
<td></td>
</tr>
<tr>
<td>Increased training</td>
<td></td>
</tr>
<tr>
<td>Established partnerships</td>
<td></td>
</tr>
<tr>
<td>Reduced employment</td>
<td></td>
</tr>
<tr>
<td>Curtail output</td>
<td></td>
</tr>
</tbody>
</table>

0% 20% 40% 60% 80% 100%
Figure 4.3 is a summary of the competitive responses of the automotive industry to the Economic Structural Adjustment Programme.

For the component producers, the implications of the liberalisation programme have been varied. For the established producers, whose main destination of output is the aftermarket, trade liberalisation presented windows of opportunities to increase output and, break into export markets. Not only did established producers reap some of the benefits of liberalisation, but an open and decontrolled market allowed for the entrance of other component/parts manufacturers. For instance Benbar (Pvt) Ltd, a locally owned firm established in November 1993 that manufactures bullbars, towbars, and rollbars has grown in five years to enjoy up to 55% of the domestic market. When asked during the course of an interview about the growth and success of Benbar (Pvt) Ltd, the company director commented, “Expansion in car sales during the first phase of the liberalisation programme provided the opportunity. With the popularity of light and medium commercial vehicles increasing, a very real chance existed to enter into the industry the way we did.”

The Structural Adjustment Programme did however result in some casualties in the automotive sector. “Jacks used to be produced and sold in Zimbabwe before 1994 but as liberalisation swept through the economy, competitive imports took over and the domestic firm was strangled out of business”.

Although some of the domestic aftermarket share was lost to cheaper imports, compensation was sought in the expansion of exports, although the domestic aftermarket continues to be the most significant destination of component manufacturing output (Fig 4.4).

66 Interview with Executive Director of the Motor Trade Association of Zimbabwe in February 1999.
The relative importance of the aftermarket for spare parts could imply that the component manufacturers can survive without any substantial assembly activities taking place in Zimbabwe which is contrary to the belief held by many that component manufacturing is only sustainable if significant vehicle production exists in the country.

**Local Content**

Local content programmes, that worked effectively in the past for South Africa in encouraging local production of a whole range of automotive components, have not been an option explored by the Zimbabwean government.

Partly responsible for a low percentage of sales to vehicle assemblers by component manufacturers, is the absence of government intervention in establishing local content.
requirements as a temporary measure to boost domestic manufacturing of various components. Although local content rules - strictly speaking - ought to be phased out under a regional trade agreement and replaced by ‘regional content’ rules, it is imperative that at some stage (usually the initial stages) local content requirements are stipulated to as to provide impetus for the mobilisation of resources towards component manufacturing. Current levels of local content in the Zimbabwe vehicle assembly sub-sector are relatively low, which is what the following illustration reflects;

Table 4.4 Local Content Levels for Top Selling Models, 1998

<table>
<thead>
<tr>
<th>MODEL</th>
<th>LOCAL CONTENT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mazda (Light Commercials)</td>
<td>20</td>
</tr>
<tr>
<td>Mazda (Passenger Cars)</td>
<td>18</td>
</tr>
<tr>
<td>Peugeot</td>
<td>10</td>
</tr>
<tr>
<td>Nissan</td>
<td>9</td>
</tr>
<tr>
<td>Land Rover</td>
<td>6</td>
</tr>
<tr>
<td><strong>UNWEIGHTED AVERAGE</strong></td>
<td><strong>12.6</strong></td>
</tr>
</tbody>
</table>

(Calculated as a percentage of the final value of the vehicle).

Among the reasons provided by the assemblers for the low levels of local content were;
- licensing/franchising agreements that stipulate particular components to be used therefore limiting the extent to which local components can be sourced, and
- in certain circumstances, it makes good business sense to simply include more components in the CKD kits because it is cheaper to import ‘full’ kits at minimum duty.

Profitability

For confidentiality reasons, vehicle assemblers could not disclose profitability trends. The component manufacturers however, on average enjoyed an increase in annual profitability growth (measured in terms of net profit before tax) between 1994 and 1997. A huge
turnaround occurred in 1998 where there was a 40% drop from the high level of Z$295 million in average profit levels compared to 1997. This significant drop has been attributed to a depressed market as a result of the deteriorating environment in Zimbabwe.

Fig 4.5

**Average Profitability in the Component Manufacturing Sector**

Employment and Wages

Employment figures in component manufacturing have risen steadily over the five years (1994 - 1998) for which data was available. Employment in the vehicle assembly sub-sector has either remained constant, or fallen during the same time period. Employment levels in the motor trade sub-sector have also fallen slightly in the past three years - due largely to a harsh economic environment that has led to widespread company closures and liquidation's which have been accompanied by retrenchments and rising joblessness.
Table 4.5 Automotive Industry Employment in Zimbabwe

<table>
<thead>
<tr>
<th></th>
<th>Assembly</th>
<th>Component Production</th>
<th>Motor Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>2600</td>
<td>8740</td>
<td>75570</td>
</tr>
<tr>
<td>1995</td>
<td>2550</td>
<td>9530</td>
<td>78000</td>
</tr>
<tr>
<td>1996</td>
<td>2200</td>
<td>10000</td>
<td>76100</td>
</tr>
<tr>
<td>1997</td>
<td>2200</td>
<td>11350</td>
<td>74225</td>
</tr>
<tr>
<td>1998</td>
<td>1700</td>
<td>11000</td>
<td>70200</td>
</tr>
</tbody>
</table>

Source: National Engineering Workers Union, 1999

Vehicle assembly and component manufacturing employment in Zimbabwe is relatively small when compared with other manufacturing sub-sectors in the economy, and it is indeed a reflection of the small scale of operations in the country. The largest assembler in the country employs no more than 540 workers (compared to say one of the smaller plants in South Africa that employs about 1000 workers). In 1998, vehicle production in total employed about 1700 workers in Zimbabwe, and the component manufacturing sector employed a further 11000 workers. The largest employer is the manufacturer of tyres which has approximately 1000 workers. The general motor trade (including dealerships/distributorships, garages, workshops, etc.) accounted for almost 70200 employees.

Wage rates in the automotive industry are considerably low and although comparable data from other developing countries was unavailable, the minimum hourly wage rates presented in Table 4.6 suggest potential labour cost advantages in the Zimbabwean industry;

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67 Employment in component production and vehicle assembly accounts for a mere 6% of total manufacturing employment!
Table 4.6 Minimum hourly rate of wages effective from 1st July, 1998

<table>
<thead>
<tr>
<th>SKILLED WORKER CATEGORY</th>
<th>Z$ per Hour</th>
<th>Rand Value/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 (Including Journeymen)</td>
<td>24.86</td>
<td>7.10</td>
</tr>
<tr>
<td>Class 2</td>
<td>19.95</td>
<td>5.70</td>
</tr>
<tr>
<td>Class 3</td>
<td>16.77</td>
<td>4.79</td>
</tr>
<tr>
<td>Class 4</td>
<td>13.72</td>
<td>3.92</td>
</tr>
<tr>
<td>GRADED JOBS CATEGORY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C1</td>
<td>19.91</td>
<td>5.69</td>
</tr>
<tr>
<td>B4</td>
<td>16.02</td>
<td>4.58</td>
</tr>
<tr>
<td>B3</td>
<td>13.67</td>
<td>3.91</td>
</tr>
<tr>
<td>B2</td>
<td>10.89</td>
<td>3.11</td>
</tr>
<tr>
<td>B1</td>
<td>9.11</td>
<td>2.60</td>
</tr>
<tr>
<td>A3</td>
<td>8.00</td>
<td>2.29</td>
</tr>
<tr>
<td>A2</td>
<td>7.67</td>
<td>2.19</td>
</tr>
<tr>
<td>A1</td>
<td>7.42</td>
<td>2.12</td>
</tr>
<tr>
<td>SKILLED WORKER TRAINEES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trainee Class 1</td>
<td>21.88</td>
<td>6.26</td>
</tr>
<tr>
<td>Trainee Class 2</td>
<td>18.35</td>
<td>5.24</td>
</tr>
<tr>
<td>Trainee Class 3</td>
<td>14.98</td>
<td>4.28</td>
</tr>
<tr>
<td>Trainee Class 4</td>
<td>12.81</td>
<td>3.66</td>
</tr>
</tbody>
</table>


Wages in Zimbabwe, in real terms, have been severely eroded by inflation which has surpassed the 50% level on a month-on-month basis. With the rising prospects of unemployment due to the depressed economic conditions in the country, workers have lost much of their bargaining power to push for higher wages.
Capacity Utilisation

A very large amount of spare capacity exists in the automotive industry sector at present. On average, the assemblers are operating at less than 50% capacity. The assemblers were unanimous in their reasons all agreeing that a depressed economic market that has stifled demand and eroded consumer disposable incomes to severe extents. Furthermore, the sky-high interest rates and the overall macroeconomic deterioration of the country have created greater affordability problems for potential consumers.

But poor capacity utilisation in the automotive industry must not be viewed in isolation from the rest of the manufacturing economy. The Confederation of Zimbabwe Industries (CZI) Bi-Annual survey (1998) shows that almost all sectors of the economy have experienced falling capacity utilisation levels over the past two years. Overall capacity utilisation was 36% in 1998 according to the survey where the Drink and Tobacco subsector accounted for the biggest fall in capacity utilisation. Therefore the under-utilisation of capacity appears to be a general phenomenon in the economy and is not unique to the automotive industry sector.

The Zimbabwe industry has the capacity to produce up to 50000 passenger cars and commercials per annum. This then brings us back to the question of exports! The industry’s ability to grow and compete is based largely on it’s propensity to penetrate export markets. But in an economy that has high protection rates for CBU’s, gaining a competitive edge becomes a serious difficulty because an overly protected and very small domestic market encourages the motor producers to focus on profitable niche markets therefore allowing a proliferation of makes and models at low and uneconomic volumes.

Industry survey results suggest that only one third of the component manufacturers are operating at full capacity. A depressed market and a deteriorating business environment are cited as the main reasons for spare/excess capacity in this sub-sector.

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68 For instance, Willowvale Mazda Motor Industries is currently only assembling 25 vehicles a day and are working a three week month as from the end of 1998.
69 Depending on the number of shifts. Treble shifts can allow up to 70000 vehicles to be assembled.
Automotive Trade Balance

Exports in the Zimbabwean automotive industry sector have never really entered a sustainable growth phase (until trade liberalisation measures kicked in) and against the backdrop of the pending moves towards a Southern African free trade area, it is important to examine the nature, reasons and consequences of the industry's overall poor export performance.

Export performance in the motor vehicle assembly sub-sector has been particularly disappointing with only 2% of all vehicles assembled (less than 200 vehicles) in 1998 being exported. This is a significant point because as we shall discover further on, the small size of Zimbabwe's domestic market suggests that the industry's long term survival depends on successfully exploiting export markets (particularly for components) which would then justify larger production runs, and allow economies of scale and scope to be achieved.

Component exports have performed relatively well (in particular the export of auto-glass to the lucrative USA market) where 12% of total component manufacturing output was exported in 1998, of which the export of glass accounted for 45% of this figure. Component exports are still small but what is encouraging is that they are growing. Component exports were as low as 3% of total component output in 1993. The relatively poorer markets of the Southern African region (such as Malawi, Mozambique, Zambia, etc.) have been the destination of almost 90% of all component exports. These figures underscore the dependence on regional markets and also reflect a certain anti-export-bias - particularly if one considers that almost three quarters of the surveyed firms are operating at less than full capacity!

The following responses were put forward as the main reasons for poor export performance (firms were asked to rank the four most important obstacles to expanding their exports);

And to some extent those in East and Central Africa.

70
Table 4.7 Major Obstacles to Expanding Exports

<table>
<thead>
<tr>
<th></th>
<th>Assemblers</th>
<th>Component Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not competitive on price</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Lack of economies of scale</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Exchange rate depreciation</td>
<td>6</td>
<td>14</td>
</tr>
<tr>
<td>Lack of government support</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>Unfair trade relations with S.A (including MIDP issues)</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Low levels of investment</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Policy/political uncertainty</td>
<td>0</td>
<td>27</td>
</tr>
<tr>
<td>High cost of inputs</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Licensing/franchising restrictions</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Non-payment by foreign customers</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

(The weighting is as follows: most important response = 5 points, second most important response = 4 points, third = 3 points, fourth = 2 points and fifth = 1 point).

Licensing restrictions imposed by 'parent' companies in foreign countries were cited by the vehicle assemblers as the most serious obstacle to expanding exports therefore suggesting that some export potential exists if these licensing/franchising agreements are revised. The lack of government support (incentives) was cited by both the assemblers and the component producers as contributing significantly to the low export performance in the industry. Component producers are also wary of the political/policy uncertainty which they rank as the most important obstacle to expanding their exports. The implementation of the MIDP in South Africa is another barrier to the expansion of component exports.

Imports of CBU's into Zimbabwe make up at least 29% of the market share of which 70% are from South Africa, and the remainder being largely second hand imports from Japan. Direct Importers of vehicles into Zimbabwe argue that imported vehicles are more popular because they are later models and are of better quality although these remarks are bitterly refuted by the local assemblers and component manufacturers.
The automotive sector in Zimbabwe is very heavily dependent upon foreign (imported) capital goods and technologies. Survey results suggest that 90% of all capital goods in the sector (both component production and assembly) are imported, South Africa, United Kingdom, Japan and the U.S.A being the major sources. Such high exposure to import-dependence creates serious problems when there is currency instability, and huge exchange rate depreciations. This is indeed the reality in Zimbabwe, where the Zimdollar tumbled by over 75% against all major currencies causing widespread problems for industries that are import intensive, and those that need to replace machinery and other capital goods.

In total component production, just over 52% of intermediate goods are imported with the main source again being South Africa. Zimbabwe's capacity to import has greatly improved the export performance of the South African automotive industry and suggests that key linkages exist between the two industries which could be exploited further in a bid to develop a strong, competitive regional automotive industry that is able to compete with other Automotive regions in the world. This is becoming increasingly important given the emergence of globalisation and its various implications, and the need to prioritise the industry as a key growth and development industry.

Table 4.8 Zimbabwean Automotive Tariff Schedule (June 1999)

<table>
<thead>
<tr>
<th></th>
<th>Passenger Cars</th>
<th>Commercials</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>DUTY (%)</td>
<td>100 - 120</td>
<td>90</td>
<td>30 - 80</td>
</tr>
<tr>
<td>SURCHARGE (%)</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>SALES TAX (%)</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

The industry is characterised by high protection in terms of tariffs, surcharges and other taxes (Table 4.8). It must be noted that these tariff schedules were revisited when there

71 For instance, the Brake and Clutch group had embarked upon a major machinery replacement drive before the currency collapsed in Oct/Nov. 1998. All capital projects have been shelved since then.
was fierce lobbying by mainly the assemblers ever since the liberalisation programme kicked off in earnest in 1992. "The industry will collapse" was the cry from the assemblers, or "Avoid dumping in our domestic market and protect jobs" (The Herald, 21/03/97). Fears of de-industrialisation and the polarisation of industry due to the rapid liberalisation of the economy, led to tariffs, surcharges and other taxes being adjusted upwards. This comes against a background of moves towards a free trade area in the region, and ironically is in contrast to what the Zimbabwean government appears to be preaching: greater intra-regional trade in Southern Africa.

4.4 Conclusions

The first impression one gets from analysing the above-presented facts is that vehicle assembly in Zimbabwe is unviable, and an unnecessary drain on the country's meagre foreign exchange reserves. This view is prevalent among direct importers of CBU's, and the general motoring public when asked why they think vehicles in the Zimbabwe market are so unaffordable. Deeper scrutiny of the survey results instead suggest that vehicle assembly *in its current form* might indeed be unviable, and not that assembly per se is unviable in Zimbabwe. Restrictive licensing/franchising agreements have done their part in limiting exports, government failure to deliver on industrial policy and a general deterioration of the macroeconomic indicators all contribute to the problematic nature of vehicle assembly in Zimbabwe. The uncompetitiveness of the assembly operations in their current forms no doubt implies serious ramifications if the proposed SADC Trade protocol materialises into a Southern African free trade area. This issue is dealt with in much more detail in the following chapter.

With regard to component manufacturing, the surveyed firms' medium-to-long-term survival lies in the expansion of exports. With installed capacity to over-supply the domestic market, and with increased competition from imports in that market, it is up to the export market to absorb the extra output that component manufacturers are able to produce. The existence of assembly operations in Zimbabwe does not provide a
significant market for component manufacturing output. Tyres, glass, paint, batteries and exhausts aside, all other component producers in the country are producing almost entirely for the aftermarket, and minimally for the export markets. This could of course change if Zimbabwe had a larger scale assembly plant.

The second-hand vehicle market in Zimbabwe is significant in size due to the general unaffordability of new vehicles. Second-hand vehicles, some very old indeed\textsuperscript{72}, are still bought and sold, and still ply the roads. These old vehicles, dangerous as they might be, provide significant opportunities for component producers to capitalise on the aftermarket/spare parts requirements of such vehicles. Most owners of such vehicles can seldom afford to keep the vehicle in good condition, let alone afford a new vehicle (whether imported or locally assembled). Unfortunately, statistics that would have put this second hand vehicle market into more perspective, were unavailable but estimates by various interviewees during the course of the survey, suggest that the second hand vehicle market accounts for over 70\% of the total vehicle sales.

Against the background and analysis that this chapter has drawn out, what is the way forward for the Zimbabwean automotive industry sector? The way forward has to be seen in the context of the possibility of free trade within the region, and between the region and the rest of the world. Are the moves towards the implementation of the SADC Trade protocol that we discussed in chapter three beneficial or harmful for the automotive industry in Zimbabwe? If so, to what extent? If not, then what are the competitive and comparative advantages that exist for this particular sector in Zimbabwe? These questions are analysed in Chapter Five.

\textsuperscript{72} For instance, vehicles as old as 15 years (some even older than 20 years) such as the old Peugeot pick-up, Peugeot 404 stationwagon, and the 1970's Vauxhall!
Chapter Five

Is the SADC Trade and Investment Protocol a Solution to the Structural Problems of the Zimbabwean Automotive Industry Sector?

5.1 Introduction

The implementation of the August 1996 SADC Trade and Investment Protocol is an important step towards southern African integration. In Chapter Three, the issues pertaining to the protocol were discussed, and in Chapter Four, the Zimbabwean automotive industry was analysed with a view of establishing the existence of possible competitive advantages. This Chapter brings the two together! The protocol, which virtually creates a free trade area in Southern Africa, is set to change industry and trade relations between member states. The two largest economies in the region, South Africa and Zimbabwe, are likely to experience the most profound changes, particularly because large volumes of trade already take place between the two nations.

5.2 Impact of, and Responses to the SADC Trade Protocol

5.2.1 Vehicle Assemblers

The assembly industry is the sector most likely to undergo serious adjustment. Low volumes, outmoded plants and products, perceptions of poor quality and shoddy workmanship, restrictive licensing agreements, the absence of clear and supportive
industrial policy and the domestic economic meltdown\textsuperscript{73} all undermine the future prospects of the industry in Zimbabwe.

Vehicle assemblers are heavily protected and have excess capacity. While the SADC Trade Protocol will potentially provide a larger, more accessible market for Zimbabwean produced vehicles, "the franchising arrangements between local assemblers and 'parent' companies prohibit Zimbabwean assemblers from exporting to markets where the 'parent' company already has a presence, and some of these markets inevitably include SADC countries where distributorships have been established that are supplied directly from the 'parent' country " (CZI Official\textsuperscript{74}, 1999). The CZI concedes that for this reason and others, the SADC Trade protocol will bring about greater intra-regional trade, and is likely to result in the shrinking of the automotive sector – possibly the closure of certain operations as part of the streamlining of the Zimbabwean industry.

\textbf{Fig.5.1}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{expected_competition_from_sadc}
\caption{Expected Competition from SADC}
\end{figure}

\begin{itemize}
\item \textbf{a) Increase dramatically} 67%
\item \textbf{b) Increase slightly} 56%
\item \textbf{c) No increase} 11%
\end{itemize}

\textsuperscript{73} Culminating in sky-rocketing interest rates, runaway inflation, mounting budget deficits, and near collapse in business confidence.

\textsuperscript{74} Interview with the Chief Economist of the Confederation of Zimbabwe Industries.
In the survey conducted in the course of this study, vehicle assemblers, component manufacturers and direct importers were asked how much they expected existing patterns of competition to change due to the implementation of the SADC Trade and Investment protocol? (Figure 5.1).

As was generally expected, the vehicle assemblers – particularly the light vehicle manufacturers, expect competition from imports to increase dramatically as a result of the trade agreement. This is consistent with standard trade theory which suggests that weak industrial structures which have become dependant on generous tariff protection will face closure unless they are able to rapidly restructure. Indeed, the impact of trade liberalisation largely depends on how firms actually respond to the changing trade and business environment. Assembly companies and component manufacturers were further asked how they planned to respond to such a fast changing environment (Table 5.1);

<table>
<thead>
<tr>
<th>Planned Responses to the SADC Trade Protocol</th>
<th>% of Vehicle Assemblers</th>
<th>% of Component Producers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding output</td>
<td>67</td>
<td>78</td>
</tr>
<tr>
<td>Establish foreign/domestic partnerships</td>
<td>100</td>
<td>44</td>
</tr>
<tr>
<td>Reduce product price</td>
<td>33</td>
<td>22</td>
</tr>
<tr>
<td>Increase training</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>Increase investment</td>
<td>33</td>
<td>78</td>
</tr>
<tr>
<td>Improve product/process technology</td>
<td>33</td>
<td>44</td>
</tr>
<tr>
<td>Expand exports</td>
<td>33</td>
<td>89</td>
</tr>
<tr>
<td>Shut down plant/operations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Improve plant efficiency (e.g. through work organisation)</td>
<td>67</td>
<td>56</td>
</tr>
<tr>
<td>Diversify product line</td>
<td>33</td>
<td>11</td>
</tr>
<tr>
<td>Standardise product line</td>
<td>0</td>
<td>33</td>
</tr>
<tr>
<td>Reduce employment</td>
<td>33</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 5.1 Planned Responses to the SADC Trade Protocol
In some respects, the responses tend to suggest that the automotive industry is well prepared for the competition that is expected. Planned responses by component producers are most encouraging, particularly in terms of increasing investment, expanding output and exports. All of the vehicle assemblers are looking forward to establishing partnerships especially with some of the large vehicle producing companies such as Volkswagen, Toyota, Ford, etc. This is an important response by the vehicle producers because it would provide new investment, and enable the negotiation of licensing agreements that are less restrictive. It would furthermore integrate the Zimbabwean industry into the global automotive industry. It is highly significant that none of the firms in the industry expect to close shop, and only one vehicle producer plans to cut costs by reducing employment. This again suggests that the automotive industry is gearing up for the impending competition.

5.2.2 Component Manufacturers

Relatively speaking (when compared to the assemblers), component producers stand a far better chance of withstanding the pressures of trade integration and exploiting the opportunities which it presents. The potential for the component industry to expand and become a significant regional player is considerable. As indicated in Chapter Four, although increasing over time, component exports are still very small (12% of total component manufacturing output\(^75\)). If more effort is put into capitalising on the potential of the export market, and if quality can be improved, the prospects for component manufacturing firms are quite good. Information obtained during the company interviews suggests that the existing component manufacturing sub-sector has significant competitive advantages such as labour costs, established infrastructure and the central location of Zimbabwe in the SADC region\(^76\).

The very strong commitment on the part of the component producers to increase output and expand exports, is a result that adds credibility to the view that component

\(^75\) Of which over 50% is the export of glass.

\(^76\) Zimbabwe has borders with five countries of the eleven in the region.
manufacturers are better positioned to reap some of the benefits that are associated with intra-regional trade liberalisation. Since South Africa is the major component and vehicle producer in the region, trade relations and the harmonisation of policies are crucially important. The South African industry is guided by a comprehensive and overly supportive Motor Industry Development Programme (MIDP) which encourages exports through allowing exporting firms to rebate duties on imports. This is a source of serious discontent among some of the Zimbabwean producers – especially the producers of batteries, tyres and exhausts. "The MIDP virtually subsidises component exports to regional markets" voiced an official from a battery manufacturer, and that is working against what the SADC Trade Protocol is working for!"

The information presented above suggests that the motor industry in general, and vehicle assembly in particular, are in for a bumpy ride whether or not the path of intra-regional trade integration is pursued. Although component producers stand a better chance, it is only those that produce at competitive volumes, quality and prices, and those that are able to establish tighter linkages with large vehicle manufacturers (supply chains) in South Africa that will be able to capitalise on the opportunities presented by regional cooperation and integration.

The experience of trade liberalisation in Zimbabwe since 1993 (particularly in the clothing and textile industry, and to a lesser extent – certain subsectors of the automotive industry) – show the stark realities when theory turns into practice. The clothing and textile industry virtually collapsed before being resuscitated by government action and foreign direct investment from Iran, and stiff competition in some product lines in the components sector forced some small and medium firms (such as the producer of jacks, who closed shop under intense competition and adverse trading conditions) out of business. Although the allocation of foreign exchange was gradually decontrolled, the depreciation of the Zimbabwe dollar and the upward spiral of interest rates combined to

77 The government re-imposed ‘retaliatory tariffs’ and provided funds/credit for expansion as part of the wider indigenisation programme.
78 However controls were re-imposed on foreign exchange in the wake of the crash of the Zimbabwe dollar towards the end of 1998.
exert severe pressure on the automotive industry. Exports of both automotive and other products grew but not by enough to compensate for the high import cost of new machinery, technology and intermediate goods. The rather slow supply response by Zimbabwean manufacturers is related to the high import-dependency which leads to the emergence of supply bottlenecks when there are exchange rate depreciations.

5.3 Policy Recommendations

5.3.1 Industrial / Sectoral Policy

The lack of a clear strategy for the motor industry has stifled its development. For an industry with considerable potential to generate increasing employment and income, it is paramount that all stakeholders (government, firms, workers, industry federations, trade associations, etc.) be encouraged within the context of a commitment to the sustainable development of a viable automotive sector. Emphasized earlier on in the paper was the finding that vehicle assembly in Zimbabwe in its current form, is unviable in an environment where protective trade barriers are being gradually relaxed, and where licensing restrictions, a small and depressed domestic market, and uneconomic production volumes are general features of the automotive industry. Vehicle assembly has a high profit potential for individual firms only if tariffs remain high, and represents a misallocation of resources which slows down further industrial growth in other more ‘deserving’ parts of the economy. This is not to say that vehicle assembly and manufacturing is unviable per se in Zimbabwe. But viability will depend on the willingness and ability to successfully undergo the structural transformation required to maximise the opportunities that arise out of a free trade area.

The success of the Zimbabwean automotive industry, especially against the backdrop of a rapidly changing trade environment, depends largely on the successful implementation of appropriate trade, industrial and technology policies. The economic rationale for

79 In October-November 1998, the Zimbabwe currency shed over 75% of its value.
Industrial and technology policy is predominantly based on traditional theories of market failure\textsuperscript{80} where, "the basic argument is that the invisible hand is conspicuous mainly by its absence and the state is needed to supplement market forces" (Price, 1981) cited in Mohan (1998). As the statement implies, the state ought to intervene in those areas where the market does not function efficiently with the view that industrial and technology policy be geared towards enhancing the functioning of markets, or indeed to supplant them where they obviously cannot function. But what constitutes effective industrial policy? \textsuperscript{81} "Industrial policy reflects the view that competitive adjustment problems require policy measures tailored to the needs of industrial sectors and firms. Industrial policy means government policy aimed at or motivated by problems within specific sectors" (Tyson and Zysman, 1983a) cited in Mohan (1998). As this thesis has argued, such an approach to trade and industry is desperately lacking in Zimbabwe.

Unfortunately, the government has not responded in a supportive and encouraging way. As survey results show, almost all respondents (vehicle assemblers and component manufacturers, and others\textsuperscript{81}) felt that a lack of government incentives, a lack of clearly stated objectives, and overall policy uncertainty are responsible for the weak performance of firms in the industry. In this regard the role of government is crucial in providing an enabling environment, although it is the response of private capital (both local and foreign) to government-sponsored efforts that is ultimately responsible for the desired growth and development of the industry in Zimbabwe. In other developing countries, such as Malaysia, South Korea and Argentina, the respective governments took the lead in both encouraging and supporting the growth of the automotive sectors by providing enabling legislation (labour, trade, tariffs, etc.), by enforcing active policies that stifled choice but nevertheless facilitated the mass production of high quality vehicles, and by guaranteed financial backing in the form of direct subsidies, tax concessions and 'cheap', easy credit.

\textsuperscript{80} Such as capital market imperfections, product market distortions, and labour market rigidities.
\textsuperscript{81} Such as the industry federations (CZI, MTAZ, etc.), trade unions and independent analysts.
Given the relatively high employment intensity of the component manufacturing subsector\textsuperscript{42}, local content rules are an option but would have to be very carefully applied because of potential cost implications. As Rhys (1996) points out, "Local content rules should be formulated with the ultimate efficiency of production in mind." If efficiency and effectiveness concerns are not the focal point of local content requirements, then the result may be a high cost, unsustainable and weak industry structure. With the low levels of local content that currently exist in locally assembled vehicles, there appears to be considerable scope for the use of local content rules, even in a regional context, to encourage domestic component manufacturing. In addition, the SADC Trade protocol has rules of origin which stipulate the regional content percentage requirement of goods that are traded within the region (rules of origin are discussed in more detail in subsection 5.3.5).

The aftermarket for spare parts (replacement market) has proven to be the backbone of component production in Zimbabwe. The absence of local content requirements has created weak, and in some instances, non-existent supply linkages and has inevitably led to the situation where the aftermarket is the predominant market that keeps the subsector afloat. In addition, the industry has long been operating in a closed economy and under heavy protection and therefore exports have traditionally been an insignificant proportion of total output. But this has been changing over the past 5-6 years where trade liberalisation and general economic reforms have encouraged component producers to expand output, and more importantly, increase exports in the wake of a rapidly changing trade environment.

Although tariff protection can play a role in nurturing infant industries, excessive protection for the wrong reasons culminates in an inefficient industry that becomes a burden on the economy. For how long does an industry remain infant? For how long are such high levels of protection necessary? Certain other developing nations (such as Malaysia, South Korea, Brazil, Argentina, etc.) have developed their automotive

\textsuperscript{42} 11 000 in Zimbabwe as to compared to 45 000 in South Africa, but the South African component industry is approximately ten times the size of the Zimbabwean component industry.
industries behind a wall of high tariffs on CBU imports. But tariffs were complemented by government-sponsored, sector-specific industrial policies, with generous export and investment incentives\(^3\), and (in the case of Korea and Malaysia) ‘cosy’ relationships between the political elite in government, major financial and banking concerns, and the ‘selected few’ industrialists. These relationships ensured easy access to finance at favourable rates, and various other concessions which combined to produce remarkable growth in production, quality and eventually exports of motor vehicles and components. Indeed, this may not be a good thing (some of the big Korean companies have been riddled with corruption scandals, and suffer from the burden of excessive borrowing) but it has created substantial industries that are now faced with a different problem of having to restructure in the face of increasing global competition. Since the government of Zimbabwe has a 75% stake in the largest vehicle assembler (WMMI) through its investment vehicle, the Industrial Development Corporation (IDC), it should either pump more money into the operations, or sell it off to the private sector who have more of the expertise required to develop the industry.

5.3.2 The MIDP and a Regional Automotive Policy?

Any automotive industry policy that is to be designed for the Zimbabwean-industry needs to take into account the MIDP that is currently in operation in South Africa, and, SACU’s general position on the automotive sector in the region. Concern has been raised by some of the larger and more labour-intensive Zimbabwean component producers who argue that the MIDP promotes unfair regional competition by virtually subsidising South African component exports to the region. This practice is inconsistent with the drive towards the implementation of the SADC Trade and Investment Protocol although the programme does include a gradual tariff phase down on imported components and CBU’s (40% on CBU’s and 30% on components by the year 2002).

Duties on components ought to be reduced within the context of a regional trade agreement. This is particularly important for component producers in Zimbabwe who

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\(^3\) Such as tax holidays, subsidies, assistance with information, technology transfer and training, etc.
complain about an, "unfair playing field" being promoted by South Africa's Motor Industry Development Programme (MIDP). The historical anti-export bias that has been a major characteristic of the automotive industry in Zimbabwe is changing, and this needs to be acknowledged and further encouraged by providing a favourable investment and export environment – perhaps exploring the option of export-processing zones. The Zimbabwe Investment Centre (ZIC), the Export Processing Zone Authority (EPZA) and ZimTrade are all institutions that have been set up by government to encourage investment into the country, and trade with other countries. Up to now, these institutions have played no major role in the development of the automotive industry. All the firms and industry officials interviewed during the survey agreed that the government has not done much in providing incentives (tax, investment, export, etc.), and where the government has come forward with an incentive structure, it is plagued by inefficiency, mismanagement and abuse.

Clearly, a regional approach to the automotive industry and trade is necessary. Integration has been rightly identified as the central strategy for the structural transformation of Southern African economies. With respect to the automotive industry, the removal of trade barriers (particularly on CBU imports) should be done with circumspection, and with the correct objectives in mind. The Zimbabwean automotive sector has been fostered in a climate of protection, and because of the small size of the domestic market, unit production costs are high. To rapidly reduce protection to the level where the local industry cannot compete, may be a mistake on developmental grounds, although optimal in terms of efficiency arguments. It is therefore imperative that regional approaches to the development of the automotive industry be encouraged which would open up market opportunities, and allow greater economies of scale.

5.3.3 Licensing / Franchising Agreements

The long term survival of any vehicle assembly in Zimbabwe hinges on the exploitation of export market opportunities. The benefit of a larger market is necessary if large scale

84 Such as the Export Retention Scheme (ERS) which has since been phased out.
profitable production is to take place. But Zimbabwean assemblers ought to review their licensing agreements (e.g. Mazda-Japan and WMMI, and Peugeot-France and Quest Motor Corp.) so that the clauses of the licensing/franchising agreement are not simply based on short term profitability, but also take into account the developmental needs of the industry in a regional and global environment that has become increasingly hostile. Clauses which insist that specific components to be used by the vehicle assemblers are sourced from particular countries, and those that forbid exports into markets where the 'parent' e.g Mazda-Japan already has a presence, are anti-competitive, and simply make a Zimbabwe an outlet for CKD packs. Furthermore, Joubert (1997) has argued that Zimbabwe's small motor assembly plants are forced\(^{85}\) to obtain tooling and components\(^{86}\) for old models at lower prices and then keep these models in production for very long periods to recoup the capital investment costs with a reasonable return on investment. “Thus few of the vehicles that are locally assembled can compete with imported offerings in terms of safety, economy or operating efficiency and perhaps cause more of a drain to the general transport economy than they ultimately contribute”(Joubert, 1997).

5.3.4 Investment

The assembly industry lacks significant new investment to enable it to upgrade plant and machinery, expand facilities, and attract competitive human resources. Although local assemblers are able to satisfy local demand for new cars, they do so at a high cost, which translates into high prices. Investments in technology, training, research and development are all a means of increasing productivity, improving quality, reducing unit costs, achieving economies of scale, and breaking into lucrative export markets.

Access to reasonably priced finance is crucial for the automotive industry in two respects. Firstly, the manufacturing activities of the automotive sector (component production and vehicle assembly) require huge capital outlays. Secondly, the demand for vehicles is also influenced by the access of firms, households and government to easy and cheap sources

\(^{85}\) Supposedly by licensing restrictions and/or negative economic conditions (exchange rate depreciation, galloping interest rates, etc.).

\(^{86}\) Such as the SKD imports from Japan.
of finance. The problem in Zimbabwe, like in many other developing countries, is the existence of imperfect information that essentially gives rise to capital market distortions. Small businesses, farmers and households do not have adequate access to loans because of the search costs of obtaining information (whether from abroad or locally), and because of relatively thin and undeveloped financial/capital markets (Mohan, 1998), industries such as the automotive industry that can possibly be subject to economies of scale, necessarily require lumpy investments. Once again, sufficient capital may not be available due to the risk evaluation and the sheer lack of adequate information, and as Pinder (1982) affirms, "the general assumption is that the relationship between cost and risk is not favourable enough for the generation of adequate funds from the capital market for industrial investment." Coupled with extremely high interest rates of over 42% (CZI, 1998), the automotive industry sector in Zimbabwe has encountered immense difficulties in trying to raise capital for expansion projects.

With significant investments in the automotive sector taking place in neighbouring South Africa and Botswana\(^8\), a free trade area in Southern Africa will exert enormous pressure on the Zimbabwean vehicle assemblers (who have grown accustomed to operating under very protective conditions) and if fresh investments are not forthcoming, the industry could indeed be buried by a surge of cheaper imports that are perceived to be of a superior quality. The South African plants after all, do have the capacity to supply the regional demand for motor vehicles. As an official from the AAZ lamented, "a tragedy is in the making for local vehicle manufacturers. But from our side, we see it as positive for the motoring public whom we represent."\(^8\)

Unfortunately, Zimbabwe has been a victim of the so-called 'promised investment syndrome' with regard to some of the major motor vehicle producing countries where promises (some promises even confirmed by top leadership of companies and government) of investments have been announced, but have yet to be translated into action. In July of 1997, a consortium of Zimbabwean businessmen signed a Z$ 400

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\(^8\) In South Africa, the industry has been boosted by the investments by 'parent' companies in local operations, and in Botswana the industry now boasts the new R250 million Hyundai plant.

\(^8\) Interview with the AAZ in Feb 1999.
million deal with a Malaysian company, Perodua, to set up a car assembly plant in Bulawayo (The Chronicle, 11/08/97) which was to assemble 10 000 cars a year. German automobile giant, VW Motors expressed its intention in March 1998 to establish an assembly line in Zimbabwe (The Herald, 30/03/98). On both these occasions it was after President Mugabe had been on state visits to the respective countries. None of these proposed investments has materialised.

Although the government has tried by various means to encourage private investment, the competition for investment funds is fierce and therefore a streamlining of decision-making processes, and greater tax, investment and export incentives are necessary to make the business environment conducive to domestic and foreign investment. It is important that Zimbabwe (and the rest of the SADC region) starts to build a favourable image as an investment location. Equally significant is the need to promote business contacts within SADC (O'Brien, 1997) which allows for the dissemination of knowledge and information. For example, improved production and market knowledge among individuals across the region would enable firms and industries to produce goods and services that complement each other in one large regional economy. For the automotive industry, and particularly the component manufacturing sub-sector, it is imperative that such complementarity exists so that specialisation occurs enabling the achievement of economies of scale, and reduced unit costs.

5.3.5 Standards and Quality Control

Issues related to standards, quality control and rules of origin are very important when dealing with free trade arrangements. The reduction in tariffs – which is the central feature of the SADC Trade protocol – could be negated by the imposition of non-tariff barriers which minimise any gains that are to be achieved from a free trade area. If each member country is to specify its own standards and quality of regionally imported products, then these can be effectively used as a form of non-tariff barrier and this only

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\[89\] Zimbabwe received a paltry ZS 800million worth of foreign direct investment from the ZS 25billion that came into Sub-Saharan Africa in 1997 (Financial Gazette, 27/03/98).
serves to impede the free trade of goods and services. Ideally, a regional standards association should be established whose function would be to offer quality accreditation to goods and services that traded within the Southern African region so as to promote a consistent and harmonised standards procedure.

The SADC trade agreement contains a ‘rules of origin’ clause which could actually be a deterrent to intra-regional trade. The Rules of Origin stipulate that a percentage of the raw material being used to manufacture export goods must originate only from the SADC. According to the survey results, at least 50% of intermediate good are imported (particularly in the glass and tyre industries), 42% of which is imported from outside the SADC region. Therefore depending on the criteria used to apply the rules, the component industry in Zimbabwe could find itself in a position where it cannot sell its output in the larger SADC market. Indeed, policies that encourage the use of locally (or even regionally) produced materials should be promoted - such as tax holidays linked to local content requirements (although this could encourage the proliferation of uneconomic and high cost production of components, and could also have various fiscal implications), full retention of export earnings, etc. - but given the high import dependency of almost all SADC countries90, if the rules of origin are enforced, South African industries and firms stand out to be the main beneficiaries.

5.3.6 Demand Management

The automotive sector, like most other sectors in the economy, suffers from the impact of high fiscal deficits, questionable economic management and policy uncertainty. All of these factors increase the cost of doing business in Zimbabwe.

A major obstacle to production efficiency is the absence of economies of scale resulting from production being oriented to very thin domestic markets, and the problem is not helped by the proliferation of vehicle models and ranges. Passenger car demand is seen

90 Particularly when a large proportion of the raw material imports of some SADC members are from outside the region e.g. Rubber, sophisticated glass and steel, etc.
mainly as a function of income per head, wealth, and relative prices of cars. Commercial vehicle demand is largely a function of the growth in national income, production and expenditure (Rhys, 1996). In this respect, local vehicle production can be encouraged by policies that stimulate demand. A study into the automotive industry sector in Africa which consisted of a country-by-country reports under the auspices of the United Nations Industrial Development Organisation (UNIDO), put together recommendations for the way forward for the sectors in each country. It was found that improved provision of consumer credit, and attempts to create a regional market could boost demand and therefore encourage greater vehicle and component production. In Zimbabwe, where per capita incomes have declined by 2% per annum since 1990 and where unemployment levels are approximately 38% (C.S.O.,1998), and where prices have risen dramatically, attempts to increase vehicle demand hinge largely with the provision of credit, vehicle finance, and large increases in incomes of both households and firms. For Zimbabweans this means good rainy seasons are vital.

A more ambitious proposal is systematic technical inspection for older vehicles, which would not only stimulate the demand for spare parts in the replacement market, but also stimulate the growth of new vehicle sales. But this proposal could present major problems to a majority of car users who are at the lower end of the market, and who cannot afford consistent maintenance of their vehicles. Furthermore, technical inspection itself is a rather tedious, cumbersome, and costly process which the government cannot afford. Besides, Zimbabwe does have a Vehicle Inspection Department (V.I.D.) that carries out routine checks but this unit is severely understaffed and suffers from perennial problems of corruption in the issuance of clearance certificates. Such inspection could be costly and could well turn out to be an administrative nightmare for the particular department managing the exercise. It is more appropriate that these routine inspections be implemented for safety reasons than for industry development objectives.

In an article published in the Zimbabwe media, Phineas Masango argues that the answer to the automotive market and industry problems lies in making small cars (The Herald, 12/06/97). He correctly argues that as disposable incomes drop (which has been
happening in Zimbabwe) people, even those in relatively high-paying jobs, can only afford smaller and less expensive vehicles, or have to purchase from the second hand vehicle market. What is required is a gradation of vehicle sizes to match affordability trends in the market. An example is Hyundai where it appears they have responded to the market developments by producing models such as the Accent, Scoupe, and others which are affordable makes. But the possibility of this happening in Zimbabwe appears to be quite remote because the assembly plants do not have the capabilities to design and manufacture their own exclusive models.
5.4 Concluding Remarks

As a nation, Zimbabwe has the comparative advantage of being the most centrally located, having borders with five of the most important SADC countries – South Africa, Botswana, Mozambique, Zambia and Namibia. This provides Zimbabwe with a huge advantage with respect to trade. Of course, being a landlocked country has burdening implications on transport costs. But this competitive disadvantage should be seen as a force or pressure on firms and industries to strive to achieve competitive advantages in other areas of business activity (such as labour costs, productivity improvements, and so on).

On the political front, regional integration presents further problems to national governments in various ways. In Zimbabwe, a country that enjoys relative political stability in the region, a looming fiscal and monetary crisis could be in the waiting as a result of a FTA. For instance, a study conducted by the Centre for Research into Economics and Finance in Southern Africa - a unit of the London School of Economics – has revealed that Zimbabwe would have to raise taxes by as much as 5% because of the free trade zone (Financial Gazette, 14/01/99). Zimbabwe collects significant fiscal revenues from custom duties – Z$9 billion out of a total revenue of Z$50 billion in 1998 – and therefore alternative revenue sources would need to be sought.

Although the implementation of the SADC Trade and Investment protocol may lead to a decline in parts of the Zimbabwean automotive industry, increasingly liberalised trade nevertheless provides the opportunities for the industry to identify their areas of comparative and competitive advantage with a view of pursuing strategies aimed at achieving national, regional, and international competitiveness. The objective should not be to shield the local industry from foreign competition (the Zimbabwean auto sector has been shielded for the past 35-40 years and therefore ‘infant-industry’ arguments surely can no longer apply). Instead, the objective should be to encourage trade and co-operation across firms and industries in the region, and allow increasing competition and rivalry between firms and industries to foster the development of the regional motor industry.
Chapter Six

Conclusion

"The future is not what it used to be!"
(W. O Rossient, 1911)

National governments in the SADC region are faced with the formidable task of developing and implementing industrial policies that are appropriate to their specific circumstances. The task is made even more demanding by a changing intra-regional and global trade environment that has brought with it the challenge to firms and industries in the region. Closer regional co-operation and integration in the SADC region has been widely accepted as an effective means of facilitating the industrial growth and economic development of the region.

The SADC Trade and Investment Protocol is set to bring about a free trade area in the region and inevitably, such agreements have sector-specific and firm-specific implications. Depending on the nature, structure and policies of different national economies, traditional theory shows that declining protection will lead to falling output and employment in the affected sector, with the benefits accruing to the rest of the economy (other sectors). But reality on the ground is far more complex and the effects of liberalisation tend to depend largely on the manner in which firms and industries respond to changes in the trade environment.

The latest figures suggest that only a small proportion of intra-regional occurs in southern Africa, and that SADC economies are over-reliant on international trade and investment in primary commodities which have very little value added. The little intra-regional trade that does take place is dominated by South Africa, and it is largely one-way trade from South Africa to the rest of the region. In addition trade patterns in the SADC region are
further complicated by the existence of the SACU, COMESA and established bilateral trade agreements such as the historic South Africa – Zimbabwe trade accord.

The objective of this dissertation has been to analyse the consequences for trade and industry of the SADC Trade and Investment Protocol. The industry of particular focus was the automotive sector in Zimbabwe. It was argued that areas of potential competitive advantages exist in the component manufacturing sub-sector and particularly in the production of components that are labour intensive, and geared specifically towards the after-market. Exports in this sub-sector have continued to grow and survey results show that firms in this sector are responding to the changing trade environment by increasing investment and expanding exports. The assembly sub-sector in Zimbabwe has very little chance of competing successfully in its current form. It has been shown that this sub-sector has been starved of the required investments in plant, equipment and technology to the extent that car production operations consist of outmoded and non-automated assembly lines, and where licensing restrictions have severely impeded the growth of the industry.

Apart from small market size, the growth of the automotive sector has been inhibited by the fall in real incomes and the rapid deterioration of both micro and macro-economic conditions in Zimbabwe. In this environment, the second hand vehicle market, and the informal after-sales sector\(^91\) have grown at the expense of the corresponding formal sectors. This result is unsurprising because as chapter four clearly pointed out, prices of new cars are far beyond the affordability limits of even the more affluent individuals\(^92\).

This paper has argued that although the SADC Trade and Investment Protocol (and other protocols) will create a wider region with a population of up to 135 million, vehicle assemblers, who have made no significant inroads into export markets in the past, have acknowledged that, “the way things are now, any further competition from imports could

\(^{91}\) Comprising of self-styled road mechanics, home industries motor mechanics, self-employed panel beaters, welders, mechanics, and auto-electricians etc.

\(^{92}\) Interviews and questionnaire results showed that the purchase of new vehicles is dominated by farmers and companies.
result in a tragedy for car manufacturing in Zimbabwe93. The component-manufacturing sub-sector has the potential advantages to compete with other regional players (mainly from South Africa). But the component producers argue that the virtual subsidisation programme that South African component producers enjoy under the MIDP is the major reason why Zimbabwean producers are not competitive. In the words of an executive from one of the battery manufacturers in Zimbabwe (February 1999), “we are confident that the removal of the MIDP incentives would allow us to compete successfully in the SADC region because those incentives present to us our only disadvantage”.

Given the relatively high employment figures in the component sub-sector and its non-dependency upon the vehicle assembly operation for its survival,94 this sector should be the focus of any sector-specific policy the government might wish to implement. It is in this sector where the comparative and competitive advantages lie. Chapter five set out the major policy recommendations that can be drawn from this research project. It argued for clear and supportive industrial policies that not only target specific sectors but are also in harmony with trade and industrial policies of the member states of the region. The basic assumption is that the harmonisation and co-ordination of industrial and trade policies among the countries of the region are crucial if any revival of SADC industrialisation is to take place.

In conclusion, this research project has contributed towards research on the promotion of industrial development in southern Africa against the background of a changing trade and investment environment, both regionally and globally. The challenges that lie ahead for SADC economies are large and it is through co-ordination efforts between the research community and stakeholders that improved policies can be put in place so as to create the necessary and sufficient conditions for industrial growth and development in southern Africa.

93 An executive of one of the leading assemblers in Zimbabwe during an interview in February 1999.
94 Component sector depends largely on the aftermarket for spare parts.
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Appendix One

Questionnaire for the Motor Vehicles Assemblers

Please note that all information provided shall be treated with strict confidentiality.

General Information

1. Name of Organisation

2. Contact Person

3. Plant start-up date

4. How has the plant changed over time?

5. Number of models assembled

6. Main models assembled

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<td>3</td>
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</tbody>
</table>

7. Number of employees

8. Total assets
9. Ownership  a) foreign  
  b) domestic  
  c) government  
  d) joint ownership  

**Production**

10. What is the firm’s production capacity? .........................................
11. Current production volume .....................................................
12. How have production volumes been changing over time? ........................................
13. Are you operating at full capacity? ..........................................
14. If not, why not? ........................................................................
15. What percentage of your capital goods (machinery, etc.) are imported? .............
16. Average age of capital equipment ...........................................
17. Where do the capital goods come from?  
   - local suppliers .................................................................
   - direct importing (sourced from where?) ................................
18. Percentage of component inputs imported ..................................
19. Percentage of component inputs sourced locally (examples) .........................
20. Total annual current value of imported kits (CKD and SKD) .............................
21. How have these figures been changing over time? ......................................
22. Where are the kits imported from? ..............................................

**Markets and Marketing**
23. Percentage of sales to:
   - domestic market .................. %
   - export market .................. %

24. What are the main reasons for poor export performance? (please rank the top four):
   a) lack of economies of scale
   b) high cost of inputs
   c) depreciation of the currency
   d) not competitive on timeliness, quality
   e) punitive trade barriers imposed by largest trading partner (South Africa)
   f) restrictive government regulations
   g) lack of government support (e.g. export facilitation)
   h) restrictions imposed by ‘parent’ company e.g. Mazda – Japan, etc.
   i) other

25. What percentage of domestic market share does your organisation enjoy? ............... %

26. How has this market share changed over time?

........................................................................................................................................

27. Levels of profitability over the past 5 years

........................................................................................................................................

........................................................................................................................................

Technology

28. How would you rate the technological capabilities of your organisation? Your organisation has capability to:
   a) choose among alternative technologies
   b) utilise technologies to designed standards
   c) adapt technologies with ease
   d) assimilate and transfer technologies
   e) generate new products and processes

29. What is the predominant form of technology transfer?
a) wholly owned foreign investment
b) joint venture with foreign investors
c) importation of capital goods
d) licences (with what restrictions)
e) employment of expatriates, sending local personnel abroad for training
e) networking with other firms

30. Does the firm have a defined R & D division? .................................................
   Explain: .................................................................................................................

**Competition and Government Policy**

31. How would you rate the competitiveness of your organisation in terms of quality, price,
and timeliness? ...........................................................................................................
.................................................................................................................................

32. What are the reasons for locally assembled vehicles being more expensive than
imported vehicles? (please rank the top four):
   a) high cost of intermediate goods
   b) high cost of semi-skilled labour (production workers)
   c) low skills level
   d) lack of economies of scale
   e) capital equipment and technology not up to date
   f) low levels of investment
   g) a depreciating exchange rate
   h) other

33. Please rank the five most important responses by your firm to the pressures and
opportunities resulting from the Economic Reform Programme (introduced in 1991):
   a) drastically curtailed assembly
   b) reduced employment
   c) established links with foreign/local partners
   d) reduced product price
   e) increased training
   f) improved product/process technology
g) improved plant efficiency (e.g. work organisation)
h) diversified product line
i) standardised product line
j) increased investment to raise productivity
k) other  

34. Has the government provided any form of:
   a) export facilitation assistance?
   b) tax incentives?
   c) investment incentives?

35. Comment on any other aspects of government policy

36. The proposed Free Trade Area (The SADC Trade Protocol), as a result of this arrangement do you expect competition from imports in your product line to:
   a) increase dramatically
   b) increase slightly
   c) no material increase in competition is expected

37. How does your firm plan to respond to such a fast changing environment? (please rank the five most important responses):
   a) shut down the plant
   b) drastically curtail assembly
   c) reduce employment
   d) establish links with foreign/domestic partners
   e) reduce product price
   f) increase assembly so as to achieve the desired economies of scale
   g) increase training
   h) increase investment to raise productivity
   i) improve product/process technology
   j) expand exports
   k) improve plant efficiency (e.g. through work organisation)
l) diversify product line
m) lobby for further government protection
n) other

Other Relevant Information

38. Productivity levels:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of vehicles assembled per employee</th>
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</thead>
<tbody>
<tr>
<td>1991</td>
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<td>1992</td>
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39. On a scale of 1 (lowest) to 5 (highest), which of the following are the most important obstacles to expanding your operation:

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Insignificant</th>
<th>Strong</th>
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<tbody>
<tr>
<td>a) not enough domestic buyers</td>
<td>1 2 3 4 5</td>
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<tr>
<td>b) not enough export orders</td>
<td>1 2 3 4 5</td>
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<tr>
<td>c) high cost of inputs</td>
<td>1 2 3 4 5</td>
<td></td>
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<tr>
<td>d) lack of technical skills</td>
<td>1 2 3 4 5</td>
<td></td>
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<tr>
<td>e) lack of access to finance</td>
<td>1 2 3 4 5</td>
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<tr>
<td>f) high cost of finance</td>
<td>1 2 3 4 5</td>
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<tr>
<td>g) high current wages</td>
<td>1 2 3 4 5</td>
<td></td>
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<tr>
<td>h) rigidities in workplace organisation</td>
<td>1 2 3 4 5</td>
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<tr>
<td>i) lack of quality and timeliness (competitiveness)</td>
<td>1 2 3 4 5</td>
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<tr>
<td>j) lack of government support</td>
<td>1 2 3 4 5</td>
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<tr>
<td>k) political/policy uncertainty</td>
<td>1 2 3 4 5</td>
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</table>
1) the proposed free trade area  
   
2) obsolete technologies  
   
3) punitive government regulations  
   
4) other:  
   
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<th>3</th>
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40. Do you think there are any areas of potential competitive strength in the Zimbabwe automotive industry sector?  

41. Do you have any other comments/suggestions you would like to make?  

\[\text{\footnotesize Forecast for the year.}\]
Appendix Two

QUESTIONNAIRE FOR COMPONENT/SPARE PARTS MANUFACTURERS

Please note that all information provided shall be treated with strict confidentiality.

General Information

1. Name of Organisation
   ..................................................................................................................
2. Contact Person
   ..................................................................................................................
3. Plant start-up date
   ..................................................................................................................
4. How has the plant changed over time?
   .....................................................................................................................
   ..................................................................................................................

5. Main Products
   1. ........................................... % of turnover/sales
   2. ...........................................
   3. ...........................................

6. Number of Employees
   ...............
7. Total Assets

8. Ownership:
   a) foreign
   b) local
   c) government
   d) joint ownership

9. Percentage of sales to:
   - final assemblers (OE) ...........................................%
   - aftermarket .........................................................%
   - export ...............................................................%

   N.B.: If any, which are your major export markets?

Production

10. What is the production capacity of your firm? .................................................................

11. Current production volume ............................................................................................

12. Are you operating at full capacity? .................................................................

13. If not, why not? .................................................................................................

14. What percentage of your capital goods (machinery, etc.) are imported? ....................

15. Where do the capital goods come from?
   - local suppliers ..............................................................................................................
   - imports (sourced from where?) ....................................................................................

16. What is the average age of your capital equipment? .................................................

17. What percentage of your intermediate goods are imported? ....................................

18. Are these percentages changing over time? ..............................................................
19. Profitability levels:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profit Before Tax</th>
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<tbody>
<tr>
<td>1991</td>
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20. How would you rate the technological capabilities of your organisation? (product and process technology)

*Your organisation has capability to:*

a) choose among alternative technologies
b) utilise to designed standards
c) extend beyond designed capability
d) adapt technologies
e) assimilate and transfer technologies
f) generate new products and processes

21. What is the predominant form of technology transfer?

a) wholly owned foreign investment
b) joint venture with foreign investors
c) importation of capital goods
d) licences (with what restrictions)
e) employment of expatriates, sending local personnel abroad for training
f) networking with other firms
22. Does the firm have a defined R & D division?  ..............................................................

Explain!  ................................................................................................................................

Markets and Marketing

23. Through which of the following channels do you sell your products in the local market:
    a) own retail outlets downstream
    b) large retail chains
    c) individually owned retail stores
    d) factory outlet
    e) trader/wholesaler

24. What have been the main obstacles to expansion of exports? (please rank the top four)
    a) not competitive on price
    b) not competitive on timeliness, quality
    c) lack of economies of scale
    d) exchange rate depreciation
    e) lack of government support
    f) absence of trade agreement with South Africa
    g) low levels of investment
    h) policy/political uncertainty
    i) high cost of inputs
    j) other ........................................

25. How would you rate the competitiveness of your organisation in terms of quality, price,
    and timeliness? .................................................................................................................

26. What are the reasons for local components being more expensive than imported parts (please rank the top four):
    a) high cost of intermediate goods
    b) high cost of semi-skilled labour (production workers)
    c) high cost of skilled and technical personnel
    d) lack of availability of skilled and technical personnel
    e) capital equipment and technology not up to date
f) low levels of investment
g). lack of economies of scale
h) small size of domestic market
i) other

27. What percentage of the market share does your organisation enjoy? ...........................................

**Government Policy and Regulations**

28. Could you rank the five most important responses by your firm to the pressures and opportunities resulting from the Economic Structural Adjustment Programme (ESAP):

a) drastically curtailed production
b) reducing employment
c) diversifying product line
d) expanding exports
e) establishing links with foreign/local partners
f) increasing training
g) improving plant efficiency (e.g. through work organisation)
h) expanding output
i) improving product/process technology
j) increasing investment to raise productivity
k) reducing product price
l) other ........................................................................................................................................

29. What tax incentives are available for:

a) Investment .........................................................................................................................
b) exports ..........................................................................................................................

30. Comments on any other aspects of government policy ......................................................
................................................................................................................................................

31. As a result of the proposed Free Trade Area (The SADC Trade Protocol), do you expect competition from imports in your product line to:
a) increase dramatically
b) increase slightly
c) no material increase in competition is expected

32. How does your firm plan to respond to such a fast changing environment? (please rank the top five expected responses):
   a) shut down operations
   b) drastically curtail production
   c) reduce employment
   d) expand output
   e) expand exports
   f) increase investment to raise productivity
   g) establish links with foreign/local partners
   h) improve plant efficiency (e.g. through work organisation)
   i) increase training
   j) reduce product prices
   k) diversify product line
   l) standardise product line
   m) improve product/process technology
   n) lobby government for protection
   o) other

33. Is the proposed Free Trade Area in the region a solution to the problems currently confronting the Zimbabwe automotive industry sector?

34. On a scale of 1 (lowest) to 5 (highest), which of the following are the most important obstacles to expanding your operation:

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Insignificant</th>
<th>Strong</th>
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<tbody>
<tr>
<td>a) not enough domestic buyers</td>
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<tr>
<td>b) not enough export orders</td>
<td>1</td>
<td>2</td>
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<tr>
<td>c) lack of technical skills</td>
<td>1</td>
<td>2</td>
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<tr>
<td>d) lack of managerial skills</td>
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<tr>
<td>e) lack of access to finance</td>
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</table>
f) high cost of finance 1 2 3 4 5
g) policy/political uncertainty 1 2 3 4 5
h) rigidities in workplace organisation 1 2 3 4 5
i) lack of government support 1 2 3 4 5
j) high cost of inputs 1 2 3 4 5
k) small size of domestic market 1 2 3 4 5
l) deteriorating macro-economic environment 1 2 3 4 5
m) the SADC Trade Protocol 1 2 3 4 5
n) other ........................................

35. Do you have any other comments/suggestions you would like to make? ..........................

xiv
Appendix Three

Questionnaire for the Direct Motor Vehicle /Component Importers.

*Please note that all information provided shall be treated with strict confidentiality.*

**General Information**

1. Name of Organisation
   
2. Contact Person
   
3. Company start-up date
   
4. How has the firm changed over time?
   
5. Number of models/components imported
   
6. Main models/components imported
   1. 
   2. 
   3. 

7. Number of employees

8. Total assets
9. Ownership
   a) foreign
   b) domestic
   c) government
   d) joint ownership

10. Which are the main countries/regions of origin of your imports?

11. From which of the following sources do you purchase your imports?
   a) from a foreign supplier
   b) from a local wholesaler

12. Total current annual value\(^2\) of imports

13. How has this figure been changing over time?

14. What are the tariff amounts levied, and other duties charged on your main import product lines?

15. How have these levies and surcharges been changing over time?

16. Are there any other tax, or other restrictions (e.g. quotas) that you face?

\(^2\) Due to rapid exchange rate deterioration, a figure in terms of volume as opposed to value, might be more useful!
Markets and Marketing

17. Percentage of sales to:
   - Domestic market: ...........%
   - Export market: ...........%

18. What are the main reasons for poor export performance? (please rank the top four):
   a) lack of economies of scale
   b) high cost of imports
   c) depreciation of the currency
   d) not competitive on timeliness, quality
   e) punitive trade barriers imposed by largest trading partner (South Africa)
   f) restrictive government regulations
   g) lack of government support (e.g. export facilitation)
   h) other

19. What percentage of domestic market share does your organisation enjoy? ...........%

20. How has this market share changed over time?

21. Value of sales over the past 7 to 10 years (optional) ..........................................................

Competition and Government Policy

22. How would you rate the competitiveness of your organisation? ............... 

23. What are the reasons for locally assembled vehicles being more expensive than imported vehicles? (please rank the top four):
   a) high cost of intermediate goods

---

1 Market share both in terms of the percentage of the imported vehicle/components market, and in terms of total vehicle/component sales (of both assemblers/component producers and direct importers).
b) high cost of semi-skilled labour (production workers)
c) low skills level
d) lack of economies of scale
e) capital equipment and technology not up to date
f) low levels of investment
g) a depreciating exchange rate
h) other

24. Please rank the five most important responses to the pressures and opportunities resulting from the Economic Structural Adjustment Programme (introduced in 1991):
   a) drastically curtailing importing activities
   b) reducing employment
c) establishing links with foreign/local partners
d) reducing product price
e) expanded imports
f) carried on operations as before
g) embarked on an aggressive marketing campaign to attract new customers
h) diversifying product line
i) standardising product line
j) increasing investment to raise productivity
k) increased/started exports
l) other .......................................................... 

25. Has the government provided any form of:
   a) export facilitation assistance?
b) tax incentives?
c) investment incentives?

26. Comment on any other aspects of government policy ........................................................................
27. The proposed Free Trade Area (The SADC Trade Protocol), as a result of this arrangement do you expect competition in your product line to:
   a) increase dramatically
   b) increase slightly
   c) no material increase in competition is expected

28. How does your firm plan to respond to such a fast changing environment? (please rank the five most important responses):
   a) shut down the firm
   b) drastically curtail imports
   c) reduce employment
   d) establish links with foreign/domestic partners
   e) reduce product price
   f) move from importing into assembly
   g) increase training
   h) increase investment to raise productivity
   i) source for cheaper imports
   j) expand exports
   k) increase imports and expand the business
   l) diversify product line
   m) lobby for government support
   n) other ....................................................

Other Relevant Information

29. From your perspective as an importer, how would you describe the uncompetitiveness of the vehicle assemblers and component manufacturers in Zimbabwe? ..........................................................
30. Can you identify any areas of competitive strengths and opportunities in the Zimbabwe auto industry sector?

31. On a scale of 1 (lowest) to 5 (highest), which of the following are the most important obstacles to expanding your operation:

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Insignificant</th>
<th>Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) not enough domestic buyers</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>b) not enough export orders</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>c) high cost of imports</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>d) lack of technical skills</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>e) lack of access to finance</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>f) high cost of finance</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>g) high current wages</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>h) rigidities in workplace organisation</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>i) lack of quality and timeliness (competitiveness)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>j) lack of government support</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>k) political/policy uncertainty</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>l) the proposed free trade area</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>m) obsolete technologies</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>n) punitive government regulations</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>o) other</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

32. Do you have any other comments/suggestions you would like to make?

Appendix Four

xx
List of Organisations who Responded to the Questionnaires, and Participated in the Interviews

Motor Vehicle Assemblers

1. Quest Motor Corporation (passenger car and light commercial vehicle assembler)
2. Willowvale Mazda Motor Industries (passenger car and light commercial vehicle assembler)
3. W. Dahmer and Co. (Pvt) Ltd (medium and heavy Commercial vehicle assembler)
4. Hubert Davies Co. (Pvt) Ltd (heavy commercial vehicle assembler)

Component Manufacturers

1. Astra Paints (Pvt) Ltd (Producer of paint)
2. Benbar (Pvt) Ltd (manufacture towbars, bullbars, rollbars, etc.)
3. Bosal Exhaust Africa (Pvt) Ltd (Manufacturer of exhaust units)
4. Brake and Clutch (Pvt) Ltd
5. Chloride (Pvt) Ltd (manufacturer of automotive batteries)
6. Dunlop Tyres (Pvt) Ltd
7. James North (Pvt) Ltd (producer of safety equipment)
8. P.G. Auto Glass (Pvt) Ltd
9. R.T.O. Engineering (Pvt) Ltd (producer of timing chains, sprockets, etc.)

**Direct Vehicle/Component Importers**

1. Anglo-Dutch Motors (Pvt) Ltd (importers of vehicle parts for the replacement market)
2. R & D Marketing (Pvt) Ltd (importers of vehicle parts for the replacement market)
3. Toyota Zimbabwe (Pvt) Ltd (importers of CBU’s)

**Other Organisations**

1. Automobile Association of Zimbabwe
2. Confederation of Zimbabwe Industries
3. Department of Customs and Excise
4. Ministry of Industry and Commerce
5. Motor Trade Association of Zimbabwe
6. National Engineering Workers Union