

**GAUTENG BUSINESS CONSULTATIVE FORUM**  
**SESSION: AUTOMOTIVE SECTOR**  
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**HEAD: This is no time to stall the machine**

**BODY:**

Now, more than ever, ensuring the sustainability of the South African economy has reached a critical tipping point. Recent developments on the political front has seen confidence in South Africa dip, and the Standard & Poor's (S&P) downgrade of South African credit to 'junk' status in early-April 2017 is a blow not only to government, but also to industry.

At the recent Gauteng Business Consultative Forum (GBCF) automotive industry session, hosted by the University of Pretoria's Gordon Institute of Business Science, a host of issues holding back the automotive sector were raised. From skills development to infrastructure, to financing; all of these challenges look set to only get tougher and more demanding given the current state of the economy.

The automotive industry has been a mainstay of the South African economy for close to 100 years. Today it makes up almost a third of all manufacturing output, nearly 15.6% of the country's total exports, and contributes a whopping 7.5% of South Africa's total GDP. This is not an industry that the country can afford to lose or, for that matter, allow to slip into a decline.

The industry, however, finds itself in a precarious position. Currently the 25<sup>th</sup> largest automobile manufacturer globally, the country produces less than 1% of the global output; 0.68% to be precise. These figures fall way behind large global manufacturers and, more concerning, way behind our fellow BRICS partners - China being number one, India and Brazil sixth and seventh respectively and Russia 11<sup>th</sup>.

In addition to this, Africa as a whole is picking up on the fact that there is no easier way to kick-start industrialisation in a country than to introduce motor vehicle production, and many countries are now getting in on the action. Morocco, which boasts a relatively new automotive industry, is now producing 400 000 vehicles per annum. That is two thirds of South Africa's current production of 600 000 vehicles. South Africa's remote location is also not helping its ability to compete, especially with countries like Morocco enjoying strategic locations near key export regions like the European Union.

Additional challenges to the local market come from outside South Africa's borders and include the surprise political events - driven by nationalist sentiment - that took place around the world last year. These including the United Kingdom's Brexit vote and the election of Donald Trump as the 45<sup>th</sup> President of the United States. Trump's America First policy, for instance, could have a significant effect on South Africa's motor vehicle exports, especially as the United States is South Africa's second-largest export market.

But it is not necessarily all bad news for South Africa. Over the past two years, the South African motor industry has seen many positive trends. Industrial relations appear to have improved, interest rates have been relatively stable, inflation rates are within manageable bands, and business balance sheets were strong. All of these factors have conspired to give the industry a much-needed boost in confidence.

But where can the automotive sector go from here? How can it remain competitive in an environment which is being hamstrung by the country's political infighting and overall instability?

Discussion points at the first GBCF to specifically focus on the automotive sector, saw a number of key issues being raised to ensure the industry continues on a growth trajectory. A positive impact from a policy perspective which was highlighted has been the move from the Motor Industry Development Plan (MIDP) to the Automotive Production Development Programme (APDP), which is seeing greater focus on developing component manufacturing, skills and technology R&D. But the industry needs a more focused approach at grassroots level to addressing issues like transformation, skills development and localisation, said delegates.

Skills within the industry were highlighted as a major cause of concern, but it was not only those surrounding production, like engineering and trade skills, there was also a recognition that business skills and the transfer of knowledge was a major impediment, not only to sustainability of businesses but also to successful transformation.

In addition, delegates at the event felt that the disconnect between vehicle assemblers (OEMs), and their tier one, tier two and tier three suppliers needed to be addressed. This disconnect is proving to be a massive disabler for smaller suppliers getting a foot in the automotive industry door. Combined with this was the recognition that without growth in the economy – and, thereby the sector - there will be no new opportunities on hand for smaller players entering the ecosystem.

Localisation was another issue that came in for some heated discussion. A call was made for greater industry collaboration between OEMs and suppliers, along with greater policy support from government. Industry players also called for provincial government to help industry become globally competitive, with infrastructure constraints being cited as a significant hindrance to competitiveness.

But the question has to be asked as to whether these discussion points can go far enough in attracting greater international investment? We also need to ask if the Gauteng Provincial Government is doing enough to transform its economic development goals into tangible growth outcomes.

MEC Lebogang Maile told the forum that the Gauteng government was committed to ‘accountable action’, together with lobbying national government to address key issues at provincial level. It certainly should be considering that Gauteng is currently South Africa’s largest automotive hub, and is home to nearly half of all the country’s component manufacturers (45.5%), versus 30.3% for the Eastern Cape and 24.2% for KwaZulu-Natal. The industry contributes 14% to Gauteng’s GDP and employs some 176 000 people. It is an industry worth nurturing, not just within Gauteng but nationwide.

And therein lies the crux of the matter. Right now, more than ever, the country needs a national government agenda that is in line with the provincial business agenda; focusing on a drive for job creation, transformation and industrialisation. This makes the findings and input from this Gauteng-focused event relevant to the entire country and across the automotive sector. As Daniel Defoe put it in his famed book *Robinson Crusoe*: “Share and share alike.”

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