

MADE IN SOUTH AFRICA

Most American Mercedes-Benz owners do not realize that the seats in their cars are produced in South Africa. From the leather in the seat covers to the seat's metallic rims, all of the materials and labor employed for Mercedes luxury seats come directly from the southern tip of Africa.

The seats are only the beginning. The automotive industry in South Africa is one of the country's hidden treasures. Today, South Africa exports all of the Mercedes C-class right-side driver vehicles, making the country DaimlerChrysler's second largest export base. DaimlerChrysler's investment alone is one of the largest in South Africa. In fact, 6.4% of South Africa's Gross Domestic Product comes from the auto industry. The industry represents the largest manufacturing sector in the country's economy, accounting for almost 30% of its manufacturing output.

Automotive companies opened operations in South Africa over half a century ago. The success of the plants has far exceeded expectations, and investment has increased significantly. Today, South Africa ranks 18th internationally in vehicle production¹, and car sales from South Africa have shown substantial growth in recent years.

Adding to the auto industry's success in South Africa, the enactment of the U.S. African Growth and Opportunity Act (AGOA) in 2000 has led to enormous increases in the auto industry's exports to the United States. Over the last five years BMW South Africa has quadrupled its business, with exports to the U.S. under AGOA producing half of that growth. The expansion has resulted in the hiring of 900 new employees in the economically depressed Eastern Cape region. In the

first year of the program, auto exports to the U.S. nearly quadrupled, to \$359 million. In 2002, this figure rose again, to \$572.9 million.

Recent Investments

As a testament to South Africa's current favorable economic conditions, two major investments were announced in September 2003.

On September 15, 2003, General Motors (GM) announced that it will launch a new line-up of Chevrolet cars in South Africa. Delta Motor Corporation, the manufacturer awarded the rights to market Chevrolet for GM, stated that the investment in 22 dealerships will amount to more than R50 million. The 22 dealerships will grow to 30 by June 2004. Delta Motor Corporation Managing Director Willie van Wyk says that the company is looking to mark its "footprint" in South Africa.

GM's announcement closely followed one by Ford SA, in which the company declared that it will begin production of two new vehicles for export under a new R1 billion investment program. The first export will be a commercial vehicle, expected to be released in the third quarter of 2004; the second, a brand new model passenger vehicle, will be released in the first quarter of 2005.





GM and Ford join BMW, DaimlerChrysler, Volkswagen and Toyota as major exporters of vehicles from South Africa.

SME Suppliers and Black Economic Empowerment

The successes of the automotive industry have resulted in substantial employment growth in South Africa. From 1999 through 2002, the automotive components industry achieved an employment growth rate of nearly 4% per annum, and the number of permanent employees increased from 67,199 in 1999 to 74,043 in 2002.

South Africa's automotive industry successes have also impacted small and medium sized enterprise (SME) development in the local economy. Van Wyk of Delta Motor Corporation addressed benefits that will befall such companies. "The reintroduction of Chevrolet will bring a new dimension to the South African automotive market. We also expect a number of positive spin-offs, which will include employment, investment and growth opportunities," he said. "New automotive component export business will also be among the opportunities we hope to capitalize on as a result of this exciting new venture." As a result of the re-entry, almost 400 jobs will be created in the South African vehicle market.

Suppliers to automotive companies have fared well during the industry's surge. As large companies expand their production, smaller suppliers must keep pace.

TC Manufacturing (TCM)'s experience exemplifies the growing possibilities for South African small and medium sized suppliers. The founder of the company, Mthembeni Mkhize, grew up under the apartheid system, vowing to "make sure poverty will end with my generation and never

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again affect myself, my family, my community, my country and the global environment where I will get a chance to participate." In 1996, Mr. Mkhize opened TCM to produce interior and exterior vinyl products for the auto industry. Today, TCM employs 60 people and has contracts from Ford, DaimlerChrysler, Toyota, Mazda and Mitsubishi. Its products range from vinyl truck covers to interior gear shields. In 2002, TCM outgrew its factory and moved its operations to a larger accommodation.

The KPL Aluminum & Die-Casting Factory, started by Sally Marengo in a township outside of Johannesburg in the early 1990s, is another success story. Ms. Marengo began her operations distributing bathroom accessories to the black townships. Seeing little growth, she diversified and expanded her operations, beginning to manufacture products including aluminum spindles for the automotive industry. Taking advantage of marketing and technical assistance from the U.S. Agency for International Development (USAID) funded South Africa International Business Linkages (SAIBL) program, KPL dramatically increased its sales and expanded its workforce. In 1999, it won a large contract from an international motor component manufacturer to supply aluminum spindles for seat belts. KPL signed a contract for over \$1 million and recently renewed it for five years at a value of approximately \$2.7 million.

By contracting to local SMEs such as TC Manufacturing and KPL Aluminum, the large international auto companies are empowering historically disadvantaged companies, an action that falls in line with the South African government's new Black Economic Empowerment initiative.



Corporate Social Responsibility

Complementing the economic growth and jobs created by the international automotive companies in South Africa are flourishing Corporate Social Responsibility Programs. Daimler Chrysler, for example, operates under the philosophy that as its global networking increases, so must its worldwide social responsibility. The company has thus engaged in various initiatives to ensure job security for employees, contribute to the local economy and encourage cultural exchange and social development at production locations and company-owned sales and service outlets.

Daimler Chrysler's program, Economic Assistance for SADC Nations, was launched in 1996 to strengthen small and medium-sized businesses in Southern Africa by teaching companies how to be more competitive in the international marketplace. The program seeks out business contacts in Germany, informing investors about the potential benefits of investing in Southern Africa. With a focus on improving the skills of emergent

companies' employees, the program also holds workshops in Southern Africa. Behind these initiatives is the belief that international competitiveness is essential for survival. The idea is that if business in the region is to survive, it must become internationally competitive.

Motoring Into the Future

South Africa's automotive industry has proven a great boon for the country, serving as one of the most impressive, while largely unknown, business success stories in recent years. It also offers optimism for the country's—and potentially the continent's—economic future.

So, next time you ride in a Mercedes, enjoy the leather seats and think about the business opportunities they generate in Africa. ☉

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¹ National Association of Automobile Manufacturers of South Africa Annual Report 2003.