

LOCAL CONTENT PROTECTION IN THE MOTOR VEHICLE INDUSTRY IN SOUTH AFRICA

Abstract:

This paper assesses the effects of local content protection, applied to the South African motor vehicle industry, on resource allocation, the balance of payments, economic growth, employment and other variables in the South African economy. It critically evaluates each phase of content protection in relation to trends in the sales of new vehicles, the output of components and the size of the labour force employed in the assembly and component manufacturing industries. The paper also looks at whether the motor vehicle industry in South Africa under local content protection has experienced higher costs of production than its overseas component suppliers due to low productive efficiency or failure to achieve economies of scale. Pursuing this point the paper examines the consequences of having many makes and models in the South African motor vehicle industry. Information from the Board of trade and industry reports, central statistical services, and the National Association of Automobile Manufacturers of South Africa) NAAMSA will be used to assess the impact of content protection in South Africa. Duncan (1992) claim that growth in the component sector took place after local content requirements were introduced. Bell (1990) reports employment levels of 37 000 for assemblers in 1989, and 60 000 for components. The board of trade and industry (1988) reports that the excess cost of local sourcing due to content protection have been much smaller than has been commonly supposed. This view was supported by Bell (1990) who noted that "locally sourced components comprising 70 percent of the weight of the average small car actually cost less than they would have if imported by an amount equal to 8,3 percent of the excise value of such vehicle. The conclusion is that local content protection benefited the South African economy by boosting the local original equipment manufacturers (OEMs), employment and the exports of the South African manufactured cars.

JEL Codes:

L62 - Automobiles; Other Transportation Equipment; Related Parts and Equipment