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## The eastern cape automotive cluster: a key sector for regional economic growth and development

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## **THE EASTERN CAPE AUTOMOTIVE CLUSTER: A KEY SECTOR FOR REGIONAL ECONOMIC GROWTH AND DEVELOPMENT**

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### **1 Introduction**

South Africa's new Constitution approved the division of the country into nine (9) regions that are known as provinces. One of these provinces is the Eastern Cape Province. Located on the south-eastern seaboard of South Africa, the Province lies equidistant from the major market centres of South Africa, such as Cape Town ("mother city" of South Africa) and Johannesburg (industrial capital of the country). The Province is linked to these and international markets by means of a modern and well developed transport system that comprises road, railway, airport and harbour facilities.

The region's economy is based primarily on manufacturing, the most important being automotive manufacturing. The Eastern Cape Province is in fact traditionally known as the hub of automotive manufacturing activities in South Africa. The other important economic sectors in the Province include agriculture, textiles and clothing, tourism, wool, timber and transport. Unfortunately, the Province is generally perceived as one of the poorer provinces in South Africa and has in recent years been earmarked as a priority for economic development and growth by both the national and provincial government.

The aim of this paper is to outline the reasons why and the way in which government, business people and all other stakeholders who have the interest of the Province at heart, focus their attention on the Province's automotive cluster development and other related policy initiatives, in an effort to accomplish economic development and growth in the region.

## **2 Background information regarding the Eastern Cape Province**

The Eastern Cape Province is the second largest province in South Africa in terms of surface area, comprising 170 600 km<sup>2</sup> or 14.0 per cent of the country's total land mass. Its population in 2001 was calculated at 6.8 million people or 15.2 per cent of the country's total population of 44.6 million. Some 37.0 per cent of the population is urbanized.

The microcosmic character of South Africa is to a great extent reflected by the salient features of the respective nine provinces, more especially the Eastern Cape Province. The Province has a particularly strong heterogeneous character in terms of both institutional and socio-economic features, with high levels of unemployment, and relatively high levels of economic dependence and economic inactivity (Horn, Lloyd & Levin 1995: 3). A main reason for this is that the former apartheid era homelands of Transkei and Ciskei are now part of the Province and strongly influence the development profile of the Province. The former homelands and self-governing territories were characterized by segregated towns, the limited availability of physical and social infrastructure, as well as limited commercial facilities and services available to especially the black population in these areas.

The official unemployment rate in the Province for the year 2000 was calculated at an unhealthy 52.9 per cent. The concept "economically active population" refers to people in the age group 15 – 64 years who are able and willing to work, and thus include both formally employed and formally unemployed people. In the

Eastern Cape Province, some 34.0 per cent of the economically active population is employed in the formal sector, while 9.9 per cent is informally employed. The percentage of people in the Province that earn an income from working in either the formal or the informal sector, is thus calculated as 43.9 per cent of the economically active population. This means that more than half of the economically active population of the Eastern Cape Province have no job related source of income and are forced to depend on other sources to survive.

These figures help to explain the relatively high dependency ratio, calculated at 3.5 persons, as well as the relatively high crime rate encountered in the region. The concept “dependency ratio” refers to the number of people who are supported by a single person participating in the labour market, excluding him/herself. As is to be expected, the dependency ratios are significantly higher in the rural areas than in the more urban areas. Families often receive some form of remittance from other family members who are migrant workers, and this helps to lessen the dependency burden.

The 2,505 million children under the age of 15 years form 36.8 per cent of the total population of the Province. This implies that, over the next approximately 15 years, the population is likely to grow fairly rapidly as these children reach childbearing age. It further implies that, as the substantial group of under-fifteens mature, a large number of young job seekers will enter the labour market annually. This will exert even more pressure on resources and social services than is currently the case.

As far as the economy of the Eastern Cape Province is concerned, it was mentioned earlier that automotive manufacturing is the strongest unifying factor in the region's manufacturing base. The main manufacturing activities in the Province are concentrated in two metropolitan areas, namely the Nelson Mandela metropole and the area surrounding East London. The Nelson Mandela metropole consists of the city of Port Elizabeth as well as two towns, namely

Uitenhage and Despatch. Port Elizabeth and East London are both well-equipped harbour cities, with both ports handling large volumes of containerised components and raw materials for the expanding automotive industry.

The Eastern Cape has always played a significant role within the South African automotive industry, with the region's economy being very dependent on the automotive industry. In 2001, as much as 21.0 per cent of the Province's GGP came from the automotive industry, while the industry contributed 15.0 per cent of the employment within the Province. Of the seven major original equipment manufacturers (OEMs) in the country, three have their bases in the Eastern Cape. These three, namely Daimler-Chrysler (in East London), Volkswagen South Africa (in Uitenhage) and Delta Motor Corporation (General Motors) situated in Port Elizabeth, hold 66.0 per cent of South Africa's passenger market, and are responsible for 40.0 per cent of the total number of vehicles produced in South Africa annually.

Furthermore, The Nelson Mandela metropole currently produces 70.0 per cent of South Africa's catalytic converters, and has about 9.0 per cent of the world market. The South African Motor Corporation (Samcor, owned by Ford US) has become a worldwide supplier of Ford engines. The presence of companies such as Bridgestone Firestone, Goodyear/Contred, Continental Tyre, Hella, Bosal and SKF, proves the strong international linkages and partnerships of the East Cape automotive industry. Foreign ownership and the presence of multinational companies (MNCs) are signs of confidence in a region's economy (Birkinshaw 2000: 93).

In terms of the regional economy, the motor industry has numerous multipliers in terms of inputs, products, labour and the use of ancillary services. It performs a vital innovative and knowledge intensive role both locally and nationally. More than 120 East Cape businesses that produce every type of motor component, depend on the three local OEMs as their primary customers. These include tyre,

catalytic converter, clutch, exhaust system, battery, metal tube, casting, brake and other related manufacturers. A threat to the survival of these companies may in the long run threaten job creation efforts and initiatives aimed at stabilising the economy of the Eastern Cape. This is one of the reasons why the automotive manufacturing sector in the Province needs to focus on becoming internationally competitive and to foster international alliances.

Recent developments in the local and overseas automotive industries suggest that automotive assemblers are increasingly accessing global markets with their products and operations. Economic and market pressures are forcing them to do so. As far as South Africa and the Eastern Cape specifically are concerned, the motor industry has succeeded in recent years in infiltrating the global market place in the face of well-established competition, after being totally isolated globally because of political reasons, less than a decade ago. In this process new alliances are formed and mergers concluded. The Daimler-Benz AG and Chrysler Corporation merger, for example, has shown that national boundaries are not sacred in the new business order. In the Nelson Mandela metropole, the General Motors 49.0 per cent buyback into Delta will see the Eastern Cape assembler becoming one of the major automotive assemblers in the country. In addition, Volkswagen South Africa's recent R5-billion export deal to the United Kingdom has made them the biggest assembler on the Africa continent. Together with the increased manufacturing and export activities at Daimler-Chrysler in East London, the Eastern Cape automotive industry as well as downstream economic activities, are well set for a boom – a boom that will undoubtedly position the region as the “Detroit of Africa”.

### **3 Cluster development in the Eastern Cape Province**

With the depressing socio-economic situation in the Province as was sketched earlier in this paper, together with the successes of the motor industry as were mentioned above, it is clear why a concerted effort was launched to explore the

Province's automotive industrial potential. Various initiatives are launched on a continuous basis to focus on and create an environment in which not only the automotive industry can flourish, but an environment that is also conducive to economic development, job creation and efficient service delivery in the region as a whole. With the Eastern Cape Province having the strongest concentration of automobile related industries in the country, the automotive manufacturers and allied industries in the Eastern Cape have, as part of these initiatives, established the Eastern Cape Automotive Industry Cluster (ECAIC). Based on the "building-on-existing-strength" principle, the automotive industry has become the primary focus for economic development and growth in the region. The belief is that a well functioning automotive cluster holds numerous economic, financial and logistical advantages for the Province as well as for the country.

Porter (1998: 78) defines industry clusters as "critical masses – in one place – of unusual competitive success in particular fields". Clusters are geographic concentrations of related companies and institutions that have a common interest that leads to enhanced levels of performance, resulting in competitive advantage. They may include suppliers of specialised inputs that range from components and machinery to services and specialised infrastructure. Industry clusters may thus be seen as groups of competing, collaborating and independent businesses working in a common industry and concentrated in a geographic region. These businesses draw on shared infrastructure and a pool of skilled human capital. The common goal of clusters is to find synergies that are necessary to achieve a competitive advantage over other regions.

Clusters often extend beyond specific industries and extend to customers and manufacturers of complementary products that make use of complementary skills, technologies or inputs. Many of these clusters include governmental and other institutions that provide education, specialised training, information, research and technical support. The Nelson Mandela metropole and the East London area have all the mentioned characteristics and have almost naturally

developed into a cluster. Furthermore, the region has access to world-class tertiary education and research institutions that, according to Porter (1998a: 88), are essential for the development of the skills and knowledge required in any cluster. The Province is home to five universities, four technikons, 26 technical colleges, as well as a number of other training centres and institutions that cater for the education and training needs of the region's population.

It is estimated that the annual combined gross turnover of the members of the Eastern Cape Automotive Industry Cluster (ECAIC) is in excess of R25-billion. The ECAIC acts as the catalyst for automotive related industries in the Province to collaborate and identify opportunities for the generation of economies of scale and scope. This is very important, especially in light of policy changes implemented by the national government. The rapid dismantling of import protection in recent years and the South African government's strategic decision to create a globally competitive industry, for example, has had a profound effect on the country's automotive industry. Local companies have been faced with the need to compete with the best in the world and some, making effective use of the government's Motor Industry Development Programme, have made the transition to global competitiveness. The process has created a more resilient and globally competitive industry. Innovative local and international partnerships are being forged to meet global quality, technology and production standards – and to build effective vehicle and component export strategies (Townsend 2001: 14). The automotive sector is thus seen as a key driver in shifting the economy from an inward import substitution focus to an exporting, internationally competitive, globally linked and knowledge intensive economy.

Stakeholders soon realised that ways and means need to be found to become leaner, i.e. to achieve more and more with less and less and to continuously strive for improvement with regard to delivery, flexibility, cost and quality. Market share gains of foreign entrants into all sectors of the South African market, be it for passenger or commercial vehicles, has put further strain on the margins of



local assemblers. Special attention is therefore being focused on productivity, logistics and supply chain improvement. The supply chains of assemblers are increasingly targeted by improvement strategies.

Suppliers that lag behind will no longer be kept on board by assemblers. The abolition of local content protection means that assemblers can replace local products with cheaper imports. Mercedes-Benz, for example, has publicly warned its local suppliers to upgrade their technology and systems to world standards or face replacement with overseas suppliers. Foreign customers will in any event not tolerate substandard quality and poor service.

Against this background, the ECAIC executive developed a set of objectives for local component suppliers to work towards that will enable them to maximise value-adding in the supply chains of assemblers and create new opportunities of global supply. Russell Consulting (1999: 4) feels that the growth and viability of the Eastern Cape Automotive Cluster depends on the key stakeholders being able to urgently embrace the vision of international competitiveness.

The vision of the cluster is thus to establish a viable local and internationally competitive industry that is capable of achieving continuous growth and sustainable job creation. In order to achieve this vision, the following five priorities have been identified on which to concentrate:

- Human resource development;
- Logistics;
- Supplier development;
- Strategic investment; and
- Job creation.

Meaningful progress has been made in addressing these priorities as far as human resource development is concerned. Concerted efforts are currently

undertaken in the Province to equip employees with the knowledge, skills and attitudes that are required to perform effectively in the business environment. In this regard, much progress has been made in the ECAIC towards the formations of partnerships between tertiary and other training institutions in the Province, and industry. Porter (1998a: 80) states that clusters need to give their members access to specialised information through personal relationships, but more importantly through community ties that foster trust and facilitate information flow leading to the high transferability of information in the cluster. Tertiary education institutions in the Province meet the needs of the automotive industry in various forms, including degree and diploma courses, semester (six months) and short-term courses, seminars and workshops, as well as on-site courses or company courses. On the other hand, business organisations assist educational institutions to identify the needs of industry, developing curriculum, placing graduates and providing much needed financial support for equipment, facilities, scholarships and recognition programmes for outstanding lecturers and students.

Education and training centres at the three major assembling plants in the Province are recognized skill providers that address the broader training needs of their own employees as well as its suppliers. All three are also actively involved in enrichment programmes and Adult Basic Education and Training (ABET) programmes. ABET programmes are run in-house by external providers or company personnel and assist employees in learning, as well as in developing literacy and numeracy skills. The benefits of this type of involvement are not only directly related to the specific company, but are of benefit to suppliers, customers and competitors, who have a stake in the pool of resources (Porter 1990: 596).

The focus of the Logistics priority is to assist members with optimizing their logistic systems through, inter alia, improved procurement and inventory management. As far as supplier development is concerned, a German OEM Supplier Council (GOEMSC) was established. This is a joint initiative of the four German OEMs in South Africa, namely Daimler-Chrysler, BMW, VWSA and

Delta. The focus of the initiative is on supplier development, and includes projects such as:

- Development of supplier quality;
- Black Economic Empowerment;
- Attracting critical suppliers into South Africa; and
- New technology development.

Mention should also be made of the Eastern Cape Automotive Benchmarking Club, which consists of thirteen members. The Club's primary focus is on benchmarking the performance of its members against both local and international counterparts. Secondary activities of the initiative include interventions for information sharing, development and collaboration.

The supporting roles played by various business chambers in the Province in pursuing the objective of creating an environment that is conducive to economic development, job creation and efficient service delivery, also need to be emphasised. Two advisory boards that focus on assisting small businesses in the Nelson Mandela metropole, include:

- The Community Self-Employment Centre (COMSEC)

Funded by the provincial government's job creation trust, COMSEC provides subsidised premises and business support services to small business people.

- The Port Elizabeth Regional Manufacturing Advisory Centre (PERMAC)

PERMAC assists small business manufacturers by means of management skills training and advice to become sustainable in the long term and to operate on a medium size or higher level.

#### **4 Other related development initiatives**

It is a well-known fact that South Africa has experienced significant economic and political changes over the past decade. The increasing awareness of these changes and its effects on society raised awareness on issues such as free market economies, privatisation and global competitiveness. With paradigm shifts such as these, the emphasis on and attention given to local and regional economics, also changed. It has now been realised that by decentralising certain responsibilities, scarce resources can be applied more productively by embarking on programmes where private sector initiative is developed to take over activities which were previously exclusively dealt with by public sector authorities. With the Eastern Cape Province's negative image of high unemployment and poverty levels, together with its low ranking on the Human Development Index, it has become essential to address issues of unemployment and social decay on a more sub-regional or local level.

In addition therefore to the cluster initiative and in an effort to address the socio-economic problems and to stimulate economic development in the Province, various other initiatives have been launched in recent years. With the cluster initiatives mainly concentrating on the two metropolitan areas of the Province, these other initiatives are focused on economic development and stimulation in both urban and rural areas, and include the following:

- Local Economic Development Planning (LEDP);
- Various Public Works programmes;
- A so-called Consolidated Municipal Infrastructure Programme (CMIP);
- Urban Renewal Plans;
- Industrial Development Zones (IDZs); and
- Spatial Development Initiatives (SDIs).

#### 4.1 Local Economic Development Planning (LEDP)

The LEDP concept was developed as a locally-driven process designed to generate economic activity and so create employment for local communities in, especially, the rural areas. An LEDP is a process of co-operation in which regional and local government, community-based and non-governmental organisations, as well as the organised private sector, combine their resources and efforts in partnership agreements in order to generate economic activity and so create employment and better living conditions for their respective communities.

LEDP must be understood in its broader context, namely to form part of the Economics of Regional Development in which the location theory of Economics plays a decisive role. Here the locational factors such as labour costs, energy costs, suppliers, telecommunication, education and training facilities, road and rail infrastructure, as well as local government commitment, play a vital role. Besides the locational factors, issues such as the advantages of being located in close proximity to other related businesses or markets, also play an important role.

Various LED projects have been undertaken in the Eastern Cape Province up to 2002, with most of the LED projects undertaken so far focusing on stimulating tourism and agricultural activities in the rural areas of the Province.

#### 4.2 Various Public Works Programmes

Public works programmes that are undertaken to provide basic services in previously marginalised areas, are seen to be a foundation of spatial development. The projects in the Province range from the upgrading of schools, roads and water supply, to the building and establishment of new crèches, sports

fields, irrigation systems, taxi ranks and market stalls. A great number of people in rural areas in the Province benefit from these public works programmes.

#### 4.3 Consolidated Municipal Infrastructure Programmes (CMIP)

Similar to the public works projects outlined above, the majority of these CMIPs are focused on improving and uplifting the socio-economic conditions in the Eastern Cape Province's rural areas. These projects almost exclusively include the building and improved provision of roads, water, sanitation, community lighting and solid waste disposal sites. In contrast to the public works projects, unfortunately, the great majority of these CMIPs have not been completed. This situation is most frustrating to the huge number of envisaged beneficiaries, and needs urgent attention.

#### 4.4 Urban Renewal Plans

A Presidential Task Team identified previously disadvantaged urban areas in the Province to undergo urban renewal and urban empowerment. The main aim of urban renewal and empowerment is to address the spatial aspects of urban problems such as poverty, unemployment, crime, congestions and the general lack of infrastructure, especially the lack of health, housing and basic social services.

#### 4.5 Industrial Development Zones (IDZs)

Numerous major investors have shown interest in establishing businesses in the Eastern Cape Province, provided that access was available to a deepwater industrial port. This requirement was met by means of the Coega deepwater port that is currently under construction some 20 kilometres from the port of Port Elizabeth. This initiative will form an integral part of an export-orientated industrial development zone for the Nelson Mandela metropole. The

establishment of an IDZ is also envisaged for East London. Both IDZs are and will be designed to take into account the changes in and requirements of world shipping and logistics operations. The two main Eastern Cape ports and IDZs will thus play a crucial role in boosting infrastructure of international standard, thereby fulfilling a critical role in South Africa's industrial development programme.

#### 4.6 Spatial Development Initiatives (SDIs)

The term describes an investment strategy that aims to unlock inherent economic potential in specific spatial locations, using public resources to leverage private sector investment (Townsend 2001: 16). The national government has committed itself to a programme of encouraging investment in areas that, although having very high development potential, are currently significantly underdeveloped and underutilized. SDIs thus aim to generate long-term international competitiveness, regional cooperation, and a more diversified ownership, mainly by means of joint efforts between the private and public sectors.

## 5 Conclusion

This paper outlined the contrasting composition of the Eastern Cape Province: a successful automotive cluster development concentrated in the metropolitan areas, versus a rural area characterised by economic inactivity and high levels of unemployment, together with the limited availability of social and commercial services. Concerted initiatives and efforts are, however, underway in order to create an environment that will be conducive to economic development and growth in the region.

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