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Investment humdinger

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General Motors (GM) is set to reap a giant-sized return on its investment into a Hummer assembly plant in Port Elizabeth.

GM announced last year that it was investing $100-million (R773-million) into its South African operations, primarily in the production of the Hummer H3, a mid-size version of the vehicle Arnie Schwarzenegger made famous, the Hummer.

GM announced the start of production of the Hummer H3 at its Straundale assembly facility in Port Elizabeth this week, calling it an “important step” for the global expansion of Hummer. The first Hummer H3 was rolled off the production facility earlier this week.

However, an independent analyst says benefits afforded to motor manufacturers under the department of trade and industry’s motor industry development programme (MIDP) means that the manufacturer will get $270-million in benefits for its $100-million investment.

Frank Flatters, a Canadian professor who focuses on trade, governance and macroeconomic management, says the benefits provided for under the MIDP are equal to a 270% return on the amount invested.

The MIDP, which is under review, is seen as being extremely generous to motor manufacturers. It has boosted export growth, but with little job creation, while South African consumers have footed the bill in the form of high-priced cars.

Robert Socia, the president and MD of GM South Africa, says the MIDP is an important part of the overall business case for increasing investment in South Africa.

He says he believes the MIDP has done what it was set up to do, which is attract investment to South Africa, but says he does not subscribe to the argument that it does this at the expense of the South African consumer.

Socia says that GM returned to South Africa in 2004, because it recognised that the country was politically and economically stable and was a huge growth market.

“GM is aggressively moving into growth markets,” says Socia. “We are very bullish and we want to invest money in this country, and with that comes jobs.”

Socia says the new Hummer assembly plant has created 500 additional jobs in South Africa and that GM would be looking to invest a further R620-million in South Africa next year. Socia says the Hummer H3 vehicles that are built in South Africa will be exported to markets in Europe, the Middle East and Asia, and that a right-hand-drive model will be available in South Africa from the second quarter of 2007.

GM acquired the Hummer brand in 1999 and has significantly expanded the sales of the vehicles by 6 000%, from roughly 1 000 units in 2000 to 60 000 in 2005.

Flatters presented a paper, titled A Review of the Motor Industry Development Plan and Implications for other Sectors of the South African Economy, to Nedlac last year, where he questioned many unintended impacts of the programme such as high domestic vehicle prices.

Flatters insists in his paper that the MIDP had made South Africa "one of the most profitable vehicle markets in the world."

"The MIDP works by subsidising production of vehicles and components for both the domestic market and for export. The subsidies are paid for by domestic consumers of vehicles in the form of restricted choice and higher prices," says Flatters in his paper.

"The system of duty credits on exports means that consumers subsidise not only vehicles produced for the domestic market, but also those produced for export."

Flatters says that between 1996 and 2003 motor vehicle manufacturers in South Africa received and used R55-billion in import rebate credit certificates, which exporters can offset against duties on imported vehicles and components.

Socia says he does not agree with Flatters's assessment of a 270% return through the benefits of the MIDP and that, because he was unfamiliar with the argument, he would not like to comment.

Flatters questions the job creation potential of investment related to the MIDP in his paper, stating that in the first five years of the programme, employment in the manufacture of vehicles and components declined by 17% and that since 2000 employment levels had stabilised, but had not increased.

Flatters says that investment of more than R12-billion since 2000 has resulted in virtually no job growth in vehicle assembly.