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Support vs protection

THE motor industry development
programme (MIDP) has long been held up as a rare success story amid generally disappointing South African industrial policy outcomes.

Indeed, investment in the vehicle manufacturing sector has grown to more than R3,5bn last year from less than R1bn in 1995, and exports have soared from a base of almost zero in 1995-96 to well over 100000 units a year now. The components manufacturing industry has clearly benefited too, with the value of exports rising from a negligible amount to more than R22bn last year.

The questions that have seldom been voiced — until recently, that is — concern whether the programme is sustainable in terms of global trade rules, who has been carrying the cost associated with such industrial growth and how widely the benefits have been spread.

In recent years, however, rumblings of discontent have been heard from local trade unions and Australia, which threatened to drag the MIDP before the World Trade Organisation (WTO). And the Competition Commission initiated an investigation into anticompetitive practices which indicated there was indeed a price to be paid for government's support of the MIDP, and that consumers are probably footing the bill by paying more for cars than they would in its absence.

The latest shot across the industry's bows comes from research on the economics of the MIDP conducted by Prof Frank Flatters of Queen's University in Canada and presented to the National Economic Development and Labour Council last week. Flatters concludes that the cost of the programme outweighs its benefits to the country as a whole, with R55bn in subsidies having been paid out to car manufacturers over the years, while claimed benefits to consumers and the economy as a whole have been overstated.

The research indicates that importers of vehicles do not pass on the duties they save by offsetting their value against exports, and "as long as some vehicle importers are paying import duty (and many are), market dynamics will ensure that the domestic price reflects the duty-inclusive cost of importing". The MIDP works by subsidising the production of vehicles and components for both the domestic market and for export, he asserts, and this is paid for by domestic consumers.

Flatters also casts doubt on the conventional wisdom that the MIDP has created jobs, pointing out that employment by manufacturers of both vehicles and components in fact declined for the first five years of the programme's life, and that it has merely stabilised with negligible growth since 2000, despite investments of more than R12bn.

Whatever the industry's response to the research — if the past is anything to go by, any number of papers contradicting these conclusions are being produced even as you read — there is no avoiding the logic in Flatters' central recommendation. This is that the review of the MIDP programme currently being conducted by the trade and industry department must include an economic cost-benefit analysis conducted by an unambiguously independent third party. This aspect has been lacking in past reviews conducted before the programme was extended.

If the MIDP falls foul of WTO rules, and there is an increasing consensus that it does, then it makes no sense to extend it further in the hope that complaints lodged by competing countries can be suppressed through bilateral negotiation. The programme has already been extended twice. A third extension may be seen as an admission that the programme has failed in its key aim, which was to help car companies become globally competitive. If government is concerned over job losses if the MIDP is phased out too rapidly, it should at least state unequivocally when the programme will come to an end.