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**STUDY ON THE
AUTOMOTIVE INDUSTRY SECTOR
IN ZIMBABWE**

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STUDY ON THE AUTOMOTIVE INDUSTRY SECTOR IN ZIMBABWE

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INTRODUCTION

The automotive industry sector is a very important sector in the economic development of Zimbabwe and plays a pivotal role in the national strategy for industrialisation of the economy.

The Government looks to the sector to provide:

- 1) the much needed additional investment that will create increased capacities and jobs
- 2) sustainable transport infrastructure and services
- 3) industrial development

Recently when the Minister of Transport was asked by a reporter if he "would consider letting local vehicle assembly plants compete with foreign ones or shut them down as part of the Economic Reform Programme (ERP)", in light of competition from South Africa. His answer was an emphatic "no" to shutting down. He went further to argue that "if anything local assemblers are facing unfair competition from (imported vehicles) foreign assemblers who are afforded protection through a high duty structure and subsidies for exports in their own countries. Government is now looking at ways of supporting the (local) motor industry through appropriate measures such as tariff protection."

This is the importance the Government attaches to and the confidence it has in the sector.

The country's automotive industry sector goes back some 35 years when British Motor Corporation (formerly Leyland Zimbabwe (Pvt) Ltd and now Quest Motor Corporation (Pvt) Ltd), (MC), was founded in Umtali (now Mutare). Since then the sector has been undergoing a great deal of metamorphosis.

The first such transformation was during the UDI era when the country was put under economic embargo for unilaterally declaring independence from Britain in 1965. Government policy then was to look inwards for all forms of development with the ultimate goal of achieving self sufficiency. The automotive industry sector was no exception to this rule. All but one vehicle assembly plant and most of the vehicle component and material manufacturers supplying the sector today came into being then.

It was not until 1986 that a new government policy to replace the UDI policy was put in place. The Vertically Integrated Companies (VIC) policy was aimed at rationalising and standardising the makes and models of vehicles assembled locally in order for the country to reap maximum benefit from the scarce foreign exchange available at the time.

Since January 1994, due to trade liberalisation and other open market policies introduced as part of the ERP, foreign exchange has become more readily available rendering the VIC policy unnecessary. Although no new policy has been officially announced by the Government to replace the VIC policy the latter has since been revoked. The present state of affairs is such that any company using its own foreign exchange resources or the ERS facility is free to set up an assembly plant in Zimbabwe provided the project is approved by ZIC.

Based on the classification provided below, the development stage of Zimbabwe's automotive industry sector would be considered as Phase Two.

- a) Phase One - those sectors that import components and materials and have simple assembly activities.
- b) Phase Two - those sectors characterised by access to the market by expanded manufacture with local content rules.
- c) Phase Three - those sectors characterised by an export

capacity built into operations to help pay for continuing import requirements.

I. STRUCTURE

The present structure of the country's automotive industry sector goes back to the UDI era referred to above save for a few modifications.

The sector is structured along the VIC principle. At the apex of the structure are the vehicle assembly plants; followed by component and material manufacturers; then the vehicle dealers and sub dealers; and finally the garages. It employs some 2000 people directly and thousands more in downstream industries.

The sector is supplied by some 167 other companies for parts ranging from batteries to upholstery and screws.

When manufacturers have assembled the vehicles they either sell them direct to the customers or through selected dealers, franchised dealers and sub dealers.

Once a vehicle is sold the next thing to be done is servicing and maintaining it. This is the responsibility of the vehicle dealer or sub dealer. Two methods of providing this after sale service exist. Either the dealers/sub dealers do the servicing and maintaining in their own workshops (in-house) or they ask their customers to go to selected independent garages.

Old vehicles are serviced and maintained by a multitude of garages dotted around the country. The latter may be independently owned or belong to the vehicle assembly companies directly or indirectly. A detailed analysis of the sales and

service function is provided below under the heading "Physical Infrastructure and Network".

Three major methods of financing vehicles purchases exist in the country. These are cash purchases, mostly by individual buyers who have the cash; hire purchase and lease hire financing provided by financial institutions. Existing finance house interest rates are presently pitched at a staggering level of 38 - 40% per annum.

Deposit on vehicle financed by finance houses are stipulated by government. Because of government's bias for commercial vehicle the deposit is 25% of the purchase price and it is anything upward of 30% for passenger vehicles depending on the purchaser's credit rating. Needless to say that both the prohibitive interest rates and the large deposits have not helped the sector.

II. VEHICLE ASSEMBLY PLANTS

Zimbabwe has got four major motor vehicle assembly plants, namely:

1. Willowvale Mazda Motor Industries (Pvt) Ltd (WMMI)
2. Quest Motor Corporation (Pvt) Ltd (MC)
3. W. Dahmer & Company (Pvt) Ltd
4. Hubert Davies (Pvt) Ltd (HD)

(Details of the types, makes and models of vehicles manufactured by each plant are provided in Appendix I.)

The local industry sector has the capacity of manufacturing the majority of the country's vehicle requirements (estimated to be 25 000 - 30 000) with a production potential of at least 25 000 units per annum on a single shift basis. A breakdown of production according to company is provided in Appendix II (a).

All four plants rely on imported CKD and SKD kits to assemble vehicles completely under one roof. In other words, all of Zimbabwe's automotive assembly plants are fully integrated, i.e. there are no sub assembly plants.

The first two assembly plants are involved in the assembly of heavy and light commercial vehicles and passenger vehicles. By the VIC policy designation these two plants also assemble tractors. The last two plants only assemble heavy and light commercial vehicles.

Passenger and light commercial vehicles are assembled from imported CKD or SKD kits and local components that constitute the 25 - 30% local content. Besides the imported CKD and SKD kits, heavy commercial vehicle assembly also involves local bodybuilding (except cabs) thus increasing the local content substantially. For buses, the entire bodybuilding and seats are locally manufactured, resulting in the local content percentage rising to approximately 60%. The percentage is a low 9 - 13% for tractor assembly. Since the only local manufactured component added on are front and wheel weights.

Proponents of open competition in the motor industry argue that the mandatory local components and materials requirement has led to uncompetitive prices and inferior quality of locally assembled vehicles.

Although the assembly plants claim to have a combined production capacity of 25 000 units per annum, this is yet to be realised. Until last year, the largest number of vehicles ever produced by the plants was in 1982 when Leyland Zimbabwe (Pvt) Ltd, alone, produced 10 000 vehicles (Pulsar). The total production output for that year was estimated at between 15 000 and 20 000 units. Consequently, proponents of open competition query the efficiency of the local assembly plants.

Decision making, in all key areas of the business, by the assembly plants was very limited up until January 1994 due to the VIC policy. Under this restrictive policy the plants were heavily reliant on the Ministry of Industry and Commerce for foreign exchange allocations and special grants for their production. Thus the number of kits purchased and the volumes of vehicles produced depended on the foreign exchange allocated by central government and coupled with the devaluing Zimbabwe dollar and not of demand as should have been. Although central government envisaged that "volumes and throughput would increase following more favourable discounts given to the VIC groups by kit suppliers on bigger orders, thus reducing overheads and unit costs", the reverse was true.

III. COMPETITORS

The most contentious issue concerning the country's automotive industry sector is that of competition ushered in by liberalisation of the economy. The floodgate was opened resulting in fierce competition between locally assembled vehicles and imported CBU vehicles on the one hand and between local components and materials and imported components and materials on the other hand.

In each case the local manufacturer is crying foul. Although the imported CBU vehicles and components in question are from South Africa, the Far East and Europe as pointed out above, imports from South Africa overshadow those from the other two regions and pose the greatest threat.

Appendix II(b) shows the breakdown of the country's vehicle market in 1994. Vehicle imports from South Africa were 28.6 and are expected to be at least 35 this year.

The local automotive sector accuses South Africa of unfair competition. They cite the heavy subsidies, high tariffs and export incentives enjoyed by their South African counterparts as the source of the problem.

Under the country's current Motor Vehicle Restructuring Programme and Phase Six of General Export Incentive Scheme and the soon to be introduced Phase Seven, the South African automotive sector:

1. imposes very high tariffs, made up of 80% duty and 14% value added tax, on imported vehicles while Zimbabwe charges 15 percent duty and 10 percent surtax on all imported commercial vehicles. Duty on passenger vehicles ranges from 55 percent to 75 percent depending on engine capacity.

2. provides 50 percent drawback on whatever local content has been put into the vehicle or component. This scheme is part of an overall motor industry protection and development initiative devised to ensure that South African companies penetrate regional markets. The drawback has been increased to 100 percent at the time of writing this report.

The local automotive sector argues that "the use of such a system effectively enables South African manufacturers to export vehicles below the cost of manufacture and is tantamount to dumping". "Such export subsidies are against the World Trade Organisation's objective of free trade and render the playing field grossly uneven".

The same outcry applies to the components and materials manufacturing sub sector. The problem was brought into the limelight when local battery manufacturers observed that South African batteries selling at or below cost price were flooding

the local market and threatening their livelihood. As a result, local battery manufacturers are calling on the Government to impose a 60 percent tariff on all imported batteries to protect local industry from what they see as deliberate dumping.

So grave is the issue of unfair competition from South Africa in the sector that local people in the sector are urging the Government to draw on the experience of other countries such as Peru and Zambia, who left their automotive industries to collapse with disastrous consequences. They predict a situation similar to that of the Zambian automotive sector that saw the closure of its Fiat, Land Rover and Toyota plants in Livingstone and Ndola, unless swift counter measures are introduced.

Local vehicle manufacturers are calling on the Government take the following corrective measures:

1. Exempt from duty and surtax all vehicles assembled in Zimbabwe
2. Impose luxury tax on vehicles in excess of 2.5 litres
3. Encouragement of the development of local passenger vehicle industry by banning vehicles below 2.0 litres.
4. Insistence on a minimum level of investment/joint venture before vehicles are marketed in Zimbabwe.
5. Increase duty differentials between CKD and CBU to counter dumping practices.
6. Re-introduce local manufacturers' industrial drawback and rebate scheme.
7. Impose anti dumping duties against South Africa.
8. Exempt from sales tax locally manufactured vehicles for ZIC approved projects.
9. Restrict beneficiaries of Statutory Instruments 301A and 301B of 1993 to ZIC approved projects.
10. Encourage NGO's, charitable organisations and churches to buy locally manufactured vehicles by not giving exemptions on

imported CBU's of duty, surtax and import tax but give these fiscal benefits on locally made vehicles.

11. Ban imported second hand vehicles over three years old.

Local battery manufacturers are lobbying the Government to impose 60 percent tariff on all imported batteries to protect the local industry. They argue that such a move is within Zimbabwe's rights as a member of WTO. The latter entitles a member country to protect its industry through increased tariffs upon dumping by another country.

On the local scene, the oligopoly introduced by the VIC policy resulted in there being hardly any competition among vehicle assemblers. However, with the introduction of the ERP the situation has changed. Dealers sometimes find themselves in direct competition with the local assembly plants. For instance, assembly plants sell direct to large fleet operators and bypass dealers. Furthermore, it happens fairly often that dealers will purchase stocks from assembly plants only to find that the same stocks have been sold to "briefcase dealers" who are prepared to market the motor vehicles with no infrastructural back up for sometimes as little profit as Z\$1000. It has also been known to happen in the past before the intervention of the MTA that dealers have purchased stocks from assembly plants only to discover that the latter have actually reduced their prices forcing the dealers to sell their stocks at a loss.

The situation is very much the same for vehicle component and material manufacturers as for the vehicle assemblers after the VIC era. There is stiff competition caused by more manufacturers joining the sub sector and the call for better quality products by local vehicle assemblers in response to foreign competition.

IV. CAR COMPONENT MANUFACTURE

The local vehicle component and material manufacturing sub sector is unsophisticated and lags way behind that of South Africa. In the Southern Africa region only South Africa has an automotive industry worth talking about. (From now on any reference to the region's automotive industry applies to South Africa). If anything, it is the local vehicle component and materials manufacturing sub sector that has let down the country's automotive sector because of the poor quality and costly products produced.

Notwithstanding the above criticism it must be noted that the sub sector has great potential to grow. With particular attention now being paid to the transport sector and in the context of the current economic conditions in Zimbabwe, the sub sector should equally benefit. Government is encouraging the investment process and locally available products include proprietary items from joint venture and licensing arrangements such as automotive electrical products, paint, tyres, glass, batteries, exhaust systems and trim. In the commercial vehicles sector high value added products such as brake systems, cabs, bus bodies, axles and gears are available from such arrangements. All that is now required is to completely produce locally all these products to international specifications and standards. The market is certainly poised for industrial development.

Government initiative to develop this sub sector has already been directed to the manufacture of automotive electrical products. In 1989/90 the Government commissioned the Industrial Development Unit of the Commonwealth Fund for Technical Cooperation to help an organisation involved in the

sub sector in expanding its manufacturing facilities to diversify its product range.

V. GOVERNMENT POLICY

Official government policy on the automotive industry sector was last expounded by the VIC policy of March, 1986. Since then there has not been another official policy from government. However, it is now common knowledge that with the advent of the liberalisation of the economy any company using its own foreign exchange resources or the ERS facility is welcome to set up an assembly plant in Zimbabwe with the approval of ZIC.

The objectives of the VIC policy were as follows:

- a) "to review all importers and franchised dealers of cars and tractors to control importing and local assembly and production costs to ensure economic production levels and reasonably priced vehicles on the local market and conserve the country's limited foreign exchange;
- b) to rationalise and standardise the vehicle fleet in the country including passenger, commercial (light and heavy) and agricultural tractors to reduce the number of makes and models considerably for the relatively small local market;
- c) to increase local content of assembled vehicles and tractors by encouraging the transfer of foreign technology and technical expertise to Zimbabwe and developing local industries to manufacture components and spare parts with the ultimate aim of producing a Zimbabwean car;
- d) to create three vertically integrated motor companies in the sub sector revolving round the three major assembly plants - instead of continuing with many small assemblies without achieving economies of scale.

- e) to promote a more efficient motor industry requiring additional investment to create increased capacities and jobs in the manufacture of spare parts and components.....
- f) to adopt a foreign currency allocation system biased towards commercial vehicles and tractors instead of passenger vehicles with priority on the development of an integrated public transport system - urban and rural;
- g) to achieve greater participation in the motor industry in all current major companies by local investors by reducing the foreign shareholding component in these companies".

Despite the fact there is no official motor industry policy to supersede the previous one, Government is said to be busy formulating a general manufacturing industry policy. We are reliably informed that at the time of writing this report a draft of the policy has been submitted to Cabinet for approval.

The five main objectives of the proposed manufacturing industry policy were said to be as follows:

- a) to promote, on a sustainable basis, an outwards looking industrial sector that is efficient, cost effective, and competitive, and seeks increased value addition to local raw materials.
- b) to enhance the industrial sector's contribution to GDP through increased investment in both small and large scale enterprises.
- c) to create employment with particular attention to the small scale sector as it has the greatest potential to create employment. A related objective is the development of indigenous entrepreneurs, thereby widening the economic base.
- d) to find new technology that will improve production and quality of goods, making local industry competitive on the world markets.

e) to ensure markets for Zimbabwe's output through integration of the economy with the region and internationally.

When one compares the objectives of the VIC policy with those of the proposed manufacturing industry policy, it is obvious that the two are very similar. Therefore, we predict that when the next motor industry policy is made public it will not be very different from the VIC policy. The new clauses most likely to be incorporated into former will be those addressing the change in the country's economic environment and measures recommended by local vehicle assemblers (provided above) to protect the sector from unfair competition.

On the issue of protection Government acknowledges and realises the threat posed to the local industry by the introduction of trade liberalisation and unfair competition and has promised to look at ways of supporting the industry through appropriate measures, on the one hand. On the other hand Government says it is aware and a proponent of the market globalisation which has resulted in consumers becoming more quality, price and service conscious and therefore underscores the need for local companies to respond appropriately to this rapid change in the economic environment. It goes further to say that it has no intention of protecting inefficiency, as the industry is seen in some quarters, and will not introduce protection for the sake of protection. To safeguard against this Government is considering the use of "sunset clauses" for any tariff protection and protective duties offered to the industry.

Industry representatives have proposed a period of 3 - 5 years for the sunset clauses. This period was a compromise. They initially wanted at least 6 years, "the period of moratorium granted to the South African motor industry to reduce its duty

structure from 135 percent (last year) to 20 percent in 2002 in line with the rest of WTO members" they argue.

Although the Government, promised as far back as 1993 to introduce incentives specifically meant for the automotive industry to encourage motor vehicle assembly with increased local content, nothing has come out of it to date.

Nonetheless the general investment incentives introduced under the ERP should be attractive enough for serious new investors in the sector. The incentives offered are:

a) All inward transfers and outward flows of capital through normal banking channels are not restricted;

b) The introduction of the Export Processing Zones (EPZ's) Bill. The bill will help the establishment of the Zimbabwe Export Processing Zone Authority which will be responsible for creating and regulating export processing zones in the country.

The main provisions of the Finance Bill relating to EPZ's are:

a) Project Incentives

1. Corporation tax at 15%, after a 5 year tax holiday.
2. Exemption from liability to pay withholding Non Residents Shareholder Tax on dividends distributed to non residents.
3. No liability for branch profits tax on branch of a foreign registered company operating in an EPZ.
4. No liability for withholding tax with regard to dividends distributed locally by a company licensed to operate in an EPZ.
5. Exemption from withholding taxes on interest paid, fees, remittances and royalties for a person operating in an EPZ.
6. Duty free importation of raw materials and capital goods.
7. No liability for tax on any capital gain arising from the sale of property forming part of an investment in an EPZ.

8. For persons employed by a licensed investor there will be exemption from income tax on free benefits, such as housing.
9. Refund of sales tax on goods and services.

b) Financial Incentives

i) Companies whose equity was introduced into the country before 1st May 1993 can remit up to 50% of after tax profits. However, this only for a limited time since all Exchange Control restrictions on remittance of dividends and profits will be abolished by end of this year.

ii) Presently proceeds from disinvestment equal to the amount of the original investment may be freely repatriated after a period of two years for new investment made in the country after 1st May 1993. Such investments can also freely repatriate dividends and after tax profits up to 100 without seeking Exchange Control approval. The restrictions are also being progressively relaxed towards free movement of capital.

VI. INSTITUTIONAL INFRASTRUCTURE

Zimbabwe has a network of institutions serving the automotive industry. On the one hand there are the government Ministries of Transport and Industry & Commerce, Motor Trade Association of Zimbabwe (MTA), the Manufacturers' Association of Zimbabwe (MAZ) and the Motor Industry Employer's Association of Zimbabwe (MIEAZ). These represent the government, the traders, the manufacturers and employers respectively.

On the other hand there are the Workers Committees representing the interests of the workers and the Consumer

Council of Zimbabwe representing the interests of the consumers. Unlike South Africa, the industry sector has no trade unions.

Finally Zimbabwe enjoys a well developed government infrastructure, a diversified financial structure and a sound educational system which ensures the availability of skills.

Generally, the relationship among the various institutions is very cordial. Of late there have been calls by indigenous people in the sector to establish a splitter group to represent indigenous motor traders since they feel left out in the predominantly white MTA. This may have been thwarted by the immediate past President of the MTA who underscored the need to foster a symbiotic relationship between small and main dealers. He argued that "there is plenty of room for main dealers to develop linkages with small dealers through sub dealer agreements".

VII. TRANSFER OF TECHNOLOGY

Before the VIC policy and the ERP, except for bus manufacture, there was no meaningful transfer of technology from foreign to local manufacturers because the former looked at the latter as mere sales outlets and merchants.

The position has since changed with the rapid changes in technology in the motor industry world wide and the cut throat competition. As a result the once reluctant overseas manufacturers are now keen on transfer technology. WMMI and QMI were the first local companies in the industry to benefit from this change of attitude. The position will only get better

¹ REPORT PRESENTED BY M.A. MASUNDA, THE PRESIDENT OF MTA OF ZIMBABWE AT THE AGM ON FRIDAY, 23 JUNE 1995.

with time considering the number of franchise deals and joint ventures taking place in the industry.

VIII. PHYSICAL INFRASTRUCTURE AND NETWORK

On the retail side, franchised dealers, sub dealers and private importers distribute/sell to the customers. Vehicle retail business accounts for the largest number of companies involved in the automotive sector. The number of companies and middlemen involved in retail had been significantly reduced by the VIC policy which eliminated private importers and independent franchised dealers by restricting the distribution and marketing of locally assembled vehicles to the "Big Three" companies.

However, the position has since changed with the repeal of the former policy. Of late there has been a proliferation of middlemen wanting a share of the cake.

Servicing and maintenance of new vehicles is the responsibility of those involved in the retail of the vehicles. The private importer though, has been a problem in this regard. All he is interested in is securing a sale and not be bothered with what happens after that.

Old vehicles are serviced by a multitude of garages dotted around the country. The latter may be independently owned or belong to the vehicle assembly companies directly or indirectly. In turn, these are either formal businesses and reputable or informal businesses with a host of the incumbent problems. The latter are a product of ESAP.

⁴ WILLOWVALE MOTOR INDUSTRIES
LEYLAND ZIMBABWE LTD.
W. DAHMER & COMPANY LTD.

For instance, on the one hand, the opening of the economy gave rise to the importation of many second hand vehicles, cheaply, mainly from South Africa, the Far East and Europe. Most of the vehicles imported from South Africa are by people from the lower classes of the society who could not afford to buy cars locally. The cheapest new passenger motor vehicle cost not less than Z\$100 000.00!

On the other hand the ERP has led to the astronomical rise of the cost of living. The second hand vehicle owners who brought in their vehicles from South Africa are now faced with ever increasing costs of fuel, service and repairs. To keep the vehicles on the road the owners have had to rely for service and repairs on the back yard (informal) garages which have proliferated the commercial and residential areas of the country after the introduction of ESAP.

The most notable of the backyard garages are found in Harare at a place popularly known as "Durawall". It takes its name from the concrete wall that surrounds it. The "Durawall" is a piece of land that the City Council of Harare set aside for informal sector businesses. These businesses range from the sale of old discarded plastic bottles to motor vehicle repairs, servicing and panel beating. In fact anything one can think of. Only the basics in terms of space, sanitation and shelter are provided. People pay a nominal fee to operate from there. During the few years of the market existence, the automotive business has overshadowed all other businesses. Second hand vehicle spares of any description are found here. The place has proved very popular for the average motorist who has not got the sort of money required by reputable garages to service motor vehicles. The amount of business that goes on here is unbelievable.

Excluding South Africa, Zimbabwe has the largest and the second best road network in the region. The road network links major

cities, towns, centres of economic activities and Zimbabwe with neighbouring countries. The whole network is 85000 km of which approximately 15% is tarred and 54% gravelled. The roads are of comparative international standard but those in the countryside are mostly secondary and feeder gravel roads.

The system comprises state roads linking provincial and district centres (20%), rural council roads serving large scale commercial farmers (25%), municipal roads in the urban areas (7%) and the district roads serving the peasant communal lands (48%).

The road network should improve significantly in the future since there is a big drive by government to tar all major feeder roads.

IX. MARKET

The government run Central Statistical Office puts the local market for new motor vehicles at anything between 25 000 and 30 000 units per annum and the total vehicle population at 462 203 (June 1994). Given the local market capacity of +/- 25000 units per annum and the present production output of + 10000 units it is no surprise that there is a very lucrative market for foreign companies wishing to expand their market shares.

Exports do not play a significant role in the local automotive industry - a legacy of UDI. For instance, only 1877 and 369 units were exported in 1992 and 1993 respectively.

The regional market offers great potential for long term development of the market. Zimbabwe's membership of SADC and COMESA offers the country a much larger potential market. Overall the two groupings offer Zimbabwe 280 million potential consumers. If one were to assume that just one-fifth of this figure constitutes potential customers for the automotive industry then the sky is the limit! No wonder Government's

endeavour to promote the integration of the economies of the region as stated in the manufacturing industry policy objectives.

Market protection and the instruments to be used by government have already been dealt with under the topic " Government Policy" above.

X. TECHNOLOGY

The country's "Big Three" vehicle assembly plants are sophisticated modern plants which equal many world class operations in terms of technology. They use the same production techniques that are used by the Hondas, Mazdas and Nissans of this world.

Mindful of the fact that the automotive industry worldwide has undergone major and costly technological leads and advances in research in the past decade or so, it is apparent that the "Big Three" can only have achieved the present level of development through the joint ventures and/or franchises with the world automotive manufacturing leaders. The technical partners are, Mazda for WMMI, Leyland and Hyundai for QMI and DAF for Dahmer and Co.

Although the vehicle assembly plants are well equipped (to international standard as noted above), they lose their competitive advantage when it comes to production volumes. Thus, until the volumes per model increase to acceptable levels the benefits of the state of the art technology will never be fully realised.

Until the advent of the ERP, most of the vehicle models assembled in the country were out-dated. This was done in

order to stretch the limited foreign exchange allocations of the day. Hopefully this will be something of the past because:

- a) if the local industry is to break into the regional market in a big way then it should offer the latest and not out-dated models.

- b) the use of sophisticated technology such as that found in the assembly industry is a big waste.

The state of technology in the component and materials sub sector is not on par with that of world class manufacturers. Most of it is obsolete and is only good for the knacker's yard. It is no surprise that the products by these machines produced leave a lot to be desired. A lot more effort has to be devoted to the sub sector if it's to make any meaningful contribution to the local automobile industry. If it is true that "as vehicle manufacture is established in a country a component base follows", then we hope that the causal effect will render the component efficient and as "polished" up as the vehicle manufacture.

XI. INVESTMENT

Until the introduction of the ERP, expansion and productivity improvement projects were shelved by vehicle manufacturing plants as the future was not predictable. However, from January 1994 when foreign currency became freely available and business confidence grew hundreds of millions of dollars has been further invested in the plants to bring them up to date with more promised.

QMI has invested Z\$150 million during the past 12 months through three major projects involving the manufacturing of Hyundai cars, Peugeot 405's and Volvo trucks at its Mutare plant. WMMI has also made major capital input in upgrading its facilities and making available new ranges of Mazda vehicles.

New foreign investment is being strongly encouraged as well by those already in the sector. They argue that if government intends to develop the automotive industry, now is the opportune time because of the fierce battling for the global market. They are calling for government to encourage joint ventures between local and foreign companies and the eradication of the "fly-by-night" dealers with no long term investment programmes. This lobbying for serious new comers into the sector by local manufacturers must surely be interpreted as reinforcement of the assertion by the former that as long as the playing field is level they are not afraid of competition.

XII. ENVIRONMENTAL CONSIDERATIONS

In the last decade or so environment protection has become recognized as one of the most important aspects of industrial development. The issue assumed a greater prominence after the UNCED held at Rio Janeiro on 3-14 June, 1992. Zimbabwe is a signatory to the UNCED environmental treaties and agreements on the protection and preservation of climate, biological diversity, forests, etc.

Zimbabwe has caught onto the vogue to protect the environment and it is now a governmental requirement that an Environmental Impact Assessment be undertaken before any major development project is carried out.

On the issue of switching from leaded to unleaded fuel, which is said to be more "environmentally friendly", a lot has been said but very little, if anything, done. The MTAZ has called on the Government and the petroleum companies operating in the country to join it and put heads together in order to decide which way to go. However because of the conflicting reports abound on the two types of fuel Zimbabwe is in no hurry to make a decision on which fuel to use.

In conclusion, Zimbabwe's auto industry will face major technical challenges from the environment (i.e. emissions and recyclability) like the rest of the world auto industry if and when it grows.

RECOMMENDATIONS

Zimbabwe's automotive sector has its own strengths and weaknesses, like any other country's. However, its strengths outweigh its weaknesses.

As already alluded to above, its greatest weaknesses are that it is still in its infancy and very fragile and a target for foreign companies seeking foreign bases and markets.

Whereas its weaknesses can be counted on one hand its strengths are too numerous to mention. The main ones are the level of development already achieved; the available infrastructure, physical and institutional; the improved economic environment; market availability; the market is politically stable with above average GDP for Southern Africa; a sophisticated financial system and Stock Exchange and a progressive education system; good employee and industrial relations exist; the existence of the right attitude by both the Government and all those involved in the automotive sector; these people's unwavering commitment to the development of the sector and the fact that they do not want to see Zimbabwe reduced to a nation of motor vehicle traders.

Given the above analysis of the sector highlighting the fact that there are more good than bad attributes, we recommend

that the sector be given a chance to develop. For many years the industry has exhibited massive potential which has yet to be realised for one reason or the other. We believe that once given that little push to get things moving the sector has enough momentum to grow to greater heights.

A development strategy which recognises the results already achieved and the economic realities regarding possible contributions to the national objectives by the sector on the one hand and the revolution in the world automotive industry, particularly the drive towards market globalisation on the other hand is advocated. Therefore, the suggested development strategy to be adopted should be two-track oriented involving:

a) National Development

The rationale behind the national development of the automotive industry sector is to bring it in line with the forerunners and leading sectors in Africa and in particular South Africa. Development of the national automotive sector should not be very difficult because the infrastructure (physical and institutional) is already in place and the available ready market created by the current discrepancy between supply and demand, among other things.

b) Regional Development

Once the local automotive sector is beefed up to the level of its African counterparts then the next move is to focus on the regional and international market. This objective only stands to succeed if the principle of "economies of scale" is utilised. For this reason, given that there is no resistance from either companies involved in the local sector or government to joint ventures or integration we recommend that the local sector links up with the South African sector. A

joint approach will facilitate a wider resource base (financial, human, material, physical and educational); cheaper R & D costs; sharing of technical knowledge; a broader technical expertise base; much bigger market; reduced marketing expenses; and a host of other benefits for the mutual benefit of both countries. The method of consolidation/union is not important at this stage but the acceptance of the principle to integrate the two sectors.

South Africa was recommended as the potential partner for an integrated automotive industry because we considered the following attributes:

- a) A partner based in the Southern Africa region since the sector will initially focus on the regional market.
- b) A partner on par or better than the local sector, so that they can easily complement each other.
- c) Proximity
- d) National language
- e) Similarities of national economies
- f) Present trade ties

If a decision to develop the sector were to be taken a number of things have to be done to ensure success. First, the sector's weaknesses must be addressed and turned into strengths. Then companies involved in the sector must be educated on customer supremacy. Whereas the closed economy era was "sellers' market" oriented, the open economy is "buyers' market" oriented. This fact has presented the local automotive sector with massive problems because they fail to accept the fact they are now dealing with a different customer who is aware of his consumer rights and the wide product variety available in the marketplace.

APPENDIX I

DETAILS OF LOCAL VEHICLE ASSEMBLY PLANTS

NAME OF ASSEMBLY PLANT	TYPES OF VEHICLES	MAKE AND MODEL
1. Willowvale Mazda Motor Industries (Pvt) Ltd	Heavy Commercial	Scania, Renault, Bedford
	Light Commercial	Mazda B series (Petrol & Diesel) Mazda T series (Diesel)
	Passenger	Mazda 323 (Petrol & Diesel) Mazda 626 (Sedan & S/Wagon) Mazda 626 (Cronos)
2. Quest Motor Corporation (Pvt) Ltd	Heavy Commercial	Volvo trucks Nissan Diesel trucks Leyland trucks & buses
	Light Commercial	Land Rover Defender (4x4 P/up & S/Wagon) Peugeot 504 P/up & S/Wagon) Nissan Cabstar (3 tonnes) Nissan P/up (Petrol & Diesel)
	Passenger	Peugeot 405 (Sedan & S/Wagon) Nissan Sunny (Sedan) Hyundai Excel (1.3L & 1.5L)
3. W. Dahmer & Company (Pvt) Ltd	Heavy Commercial	DAF trucks & buses AVM trucks & buses
4. Hubert Davies (Pvt) Ltd	Heavy Commercial	ERF trucks

APPENDIX II (a)

BREAKDOWN OF VEHICLE PRODUCTION ACCORDING TO COMPANIES

a) Passenger vehicles

	1992	1993	1994 ¹
Willowvale	4848	3179	3749
Quest	1229	1210	1295
TOTAL	<u>6077</u>	<u>4389</u>	<u>5044</u>

b) Trucks

Quest	2016	1175	1135
Willowvale	1113	472	431
Hubert Davies	102	102	102
Dahmer	44	32	106
TOTAL	<u>3275</u>	<u>1781</u>	<u>1774</u>

c) Buses

Dahmer	105	142	209
Willowvale	29	30	117
TOTAL	<u>134</u>	<u>172</u>	<u>326</u>

Source: Central Statistical Office

¹ FIGURES PROVIDED IN THIS COLUMN DIFFER FROM THOSE IN APPENDIX III BECAUSE THE LATER INCLUDE PREVIOUS YEARS PRODUCTION.

APPENDIX II (b)

BREAKDOWN OF THE COUNTRY'S VEHICLE MARKET IN 1994

Manufacturer	Passenger vehicles	Commercial vehicles	Total	%	% of RSA imports
Mazda ex CKD ex SA	1580 90	2940 484	4520 574 5094	37,9	11.3
Nissan ex CKD ex SA	1000 90	681 667	1681 757 2438	18.1	31.1
Toyota ex Japan ex SA	187 164	546 499	733 663 1396	10.4	47.5
Delta ex Source ex SA	13 187	- 1046	13 1233 1246	9.3	99.0
Hyundai ex S Korea	1076	-	1076	8.0	
Peugeot/Land Rover ex U.K.	500	500	1000	7.4	
Ford ex SA	35	578	613	4.6	100
Other	26	574	573	4.3	
TOTAL	4948	8488	13436	100	

^a LOCAL

1994 Statistics of total vehicle imports into Zimbabwe:

SA	28.6
Japan	5.5
S. Korea	8.0
Other	4.3

Source: Zimbabwe Motor Trade Association

LIST OF ACRONYMS

CBU	Completely Built Up units
CKD	Completely Knocked Down Units
COMESA	Common Market for East & Southern Africa
EPZ's	Export Processing Zones
ERP	Economic Reform Programme
ERS	Export Retention Scheme
ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
HD	Hubert Davies
IDC	Industrial Development Corporation
MAZ	Manufacturers Association of Zimbabwe
MIEAZ	Motor Industry Employers Association of Zimbabwe
Min. of I & C	Ministry of Industry & Commerce
MTA	Motor Trade Association of Zimbabwe
NGO's	Non Governmental Organisations
QMC	Quest Motor Corporation
SA	South Africa
SADC	Southern Africa Development Committee
SKD	Select Knocked Down Unit
UDI	Unilateral Declaration of Independence
UNCED	United Nations Conference on Environment and Development
VIC	Vertically Integrated Companies
WMMI	Willowvale Mazda Motor Industries (Pvt) Ltd
WTO	World Trade Organisation
ZIC	Zimbabwe Investment Centre
Z\$	Zimbabwe Dollar

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4. Motor Trader & Fleet Operator (an MTA Publication (July 1995)
5. Report presented by M. A. Masunda, the President of MTA of Zimbabwe at the Annual General Meeting on Friday, 23 June 1995.
6. Speech by the Minister of Transport presented at the MTA Annual General Meeting on 22 June 1995.