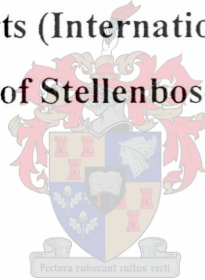


# **The effects of globalisation on the South African automotive industry**

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the degree of Masters of Arts (International Studies) at the  
University of Stellenbosch**



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*I, the undersigned, hereby declare that the work contained in this study project is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.*

Signature.

Date.

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*[Geldelikele bystand gelewer deur die Nasionale Navorsingstigting (Suid-Afrika) vir hierdie navorsing word hiermee erken. Menings uitgespreek en gevolgtrekkings waartoe geraak is, is die van die outeur en moet nie noodwendig aan die Sentrum vir Wetenskapontwikkeling toegeskryf word nie]*

## OPSOMMING

Die konsep “globalisering” lok reeds sedert die laat tagtigerjare debat wydverspreid debat uit. Die kontensieuse aard van dié begrip kan grootlike toegeskryf word aan die verskynsel van globale industriële herstrukturering. Wêreldwyd is die impak van laasgenoemde veral gevoel in die vervaardigingssektor. Hierdie tendens het by uitstek in aspekte soos tegnologie, indiensnemingspatrone en die samestelling van die werksmag gemanifesteer. Globalisering het die geneigdheid om ’n verdeling van arbeid te bewerkstellig in terme waarvan ’n kern van relatief goed besoldigde, geskoolde en beskermde werkers onderskei kan word van ’n relatief swak besoldigde groep wat stukwerk verrig. Die tweede groep verrig deeltydse werk, wat in baie gevalle uitgekontraakteer word aan maatskappye met lae vakbondverteenvoordiging.

Die fokus van hierdie werkstuk val op die impak wat veranderinge in globale produksie op die Suid-Afrikaanse motornywerheid het. Namate Suid-Afrika toenemend deel word van die wêreld ekonomie, raak dit al hoe moeiliker om die negatiewe effekte van globalisering vry te spring. Die motornywerheid, en spesifiek die vervaardiger Volkswagen, word as gevallestudie gebruik.

Dié tegnologies ontwikkelde industrie is een van Suid-Afrika se vernaamste uitvoernywerhede, en volgens kenners het veral hierdie sektor die realiteite van globalisering ter harte geneem. Kenmerkend van die motornywerheid was nog altyd sy “Ford-agtige” vorm van produksie, gefokus op inwaartsgekeerde industriële aktiwiteit. Die golwe van verandering in wêreldwye produksie hou sowel positiewe as negatiewe gevolge vir die motornywerheid in. Aan die positiewe kant moedig dit innovasie in ’n andersins stagnerende industrie aan. Die negatiewe sy hiervan is egter die bedreiging wat dit inhou vir indiensnemingspatrone. Dit mag op die langtermyn lei tot die agteruitgang van formele indiensneming en ’n toename in nie-algemene vorme van werk (bv. tydelike indiensneming en subkontraktering). Hierdie neiging sal posvat namate industrieë deur die logika van internasionale mededingenheid gedwing word om te rasionaliseer.



## ABSTRACT

Since the late 80s and early 90s there has been a sustained debate on the concept of globalisation. This has been, to a larger extent, due to global industrial restructuring. In most countries the effects have been felt mostly in the manufacturing sector, and these were evident in areas such as technology, employment pattern and composition of labour force. Globalisation introduces a tendency to create a division of labour between a core of relatively well paid, skilled and secured workers, and a large pool of workers doing non-regular forms of work e.g. 'casual' jobs or part-time contracts, and with much of the work sub-contracted to companies with less unionised and low paid workers.

This research assignment explores the effects that changes in global production have on the South African automotive industry. As South Africa is becoming increasingly integrated into the world economy it certainly will not be unaffected by effects of globalisation. The auto industry, and Volkswagen in particular will be used as a case. The industry is one of the largest export industries in South Africa at the current moment, and is said to have embraced the realities of globalisation. It is also a fairly well developed industry, technologically. The auto industry has always epitomised 'Fordist' forms of production with inward-looking industrial activity. The waves of changes in the sphere of production globally have both positive and negative effects on the automotive industry. They are spurring development and innovation in an ailing industry, and thrusting it on a path towards 'world-class' manufacturing. On the other hand <sup>the</sup> restructuring trend which is an outflow of globalisation poses a great threat on employment patterns, and in the long run may lead to decline in formal employment and introduction of non-regular forms of work e.g. part-time, casual employment, and subcontracting. This will happen as pressures mount on the industry in line with the logic of international competitiveness to rationalise and cut costs.

1. The Automotive Industry

1.1 Introduction

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1.1: Research rationale

Since the late 80s and early 90s there has been a growing interest in the concept of globalization. This has been due to a number of factors, including restructuring. In most countries the effects of globalization have been felt in the manufacturing sector, and they were particularly evident in export-oriented industries. The patterns and the composition of the labour force have changed, leading to a division of labour along a core of relatively high-skilled workers, as well as a large pool of workers doing low-skilled work. This has led to much of the work sub-contracted to companies both to earn money and to pay workers.

1.2: The South African context

In South Africa in particular, not much has been written about globalization on the labour market and on the way that the expansion of the manufacturing sector is improving industrial relations. However, the impact of globalization has been felt in the auto industry as tariffs are set to be reduced to zero, leading to restructuring and rationalisation and the process of work re-organisation. The auto industry in South Africa has been a major contributor to the world economy, it certainly will not produce anything in the future. The auto industry is the most useful case to look at in the region, as it is one of the largest export industries in South Africa and it is a highly competitive industry. It is also a fairly well developed industry, and it has been a major contributor to the world economy. Policies becoming more related to a time of increasing international trade, and a surge in imports, which will in turn lead to downward pressure on prices, rationalisation and cost-cutting. One factor of production (labour) will decline in the long run.

1.3: Globalization and the impact of globalization on the labour market

In some countries globalization and the concomitant internationalization of work has led to contracting out most of the processes requiring "unskilled" labour, the casualisation of labour, and the laying lay-off of "unskilled" labour. This has usually introduced to cut production and labour costs rather than to play a useful and developmental role – that is, creating more employment and contributing to

## **Chapter 1. Research methodology and introduction**

### **1.1. Research rationale**

Since the late 80s and early 90s there has been a sustained focus and debate on the concept of globalisation. This has been to a large extent due to global industrial restructuring. In most countries the effects have been felt mostly in the manufacturing sector, and they were particularly evident in areas such as technology, employment patterns and the composition of the labour force. Globalisation introduces a tendency to create a division of labour along a core of relatively well-paid, skilled and secured workers, as well as a large pool of workers doing 'casual' jobs or part-time contracts, with much of the work sub-contracted to companies with less unionised and lower-paid workers.

In South Africa in particular not much has been written on the impact of globalisation on the labour market and on the way that the regulatory framework has contributed to improving industrial relations. However, the impact of global trends is beginning to be felt in the auto industry as tariffs are set to be reduced through a phased process, and rationalisation and the processes of workplace restructuring are already occurring in the auto industry. As South Africa has become increasingly integrated into the world economy, it certainly will not remain unaffected by the effects of globalisation. The auto industry is the most useful case to look at in this regard. The industry is one of the largest export industries in South Africa and is said to have embraced globalisation. It is also a fairly well developed industry technologically. With trade policies becoming more relaxed at a time of increasing liberalisation, there is likely to be a surge in imports, which will in turn lead to downward pressure on domestic prices, rationalisation and cost-cutting. One factor of production (labour) is likely to decline in the long run.

In some countries globalisation and the concomitant introduction of new technology have led to contracting out most of the processes requiring "unskilled" labour, the casualisation of labour, and the laying lay-off of 'unskilled' labour. Technology is usually introduced to cut production and labour costs rather than to play a socially useful and developmental role – that is, creating more employment and contributing



to skilling. At the moment loss of jobs due to rationalisation, and the use of non-regular forms of work, are not so evident as South Africa's integration to global markets is a "guarded" one, but in the long term these negative trends will be inevitable.

In other countries unions are part of new technology agreements and are actively involved in industrial restructuring in the workplace. This is usually done through consultation with worker representative structures. This research will also look at the level of consultation with the workers through workplace forums, level of participation of workers, and the extent of co-operation between labour and management on issues of restructuring and technology agreements. The impact of the regulatory framework on these trends will also be examined.

### **1.2. Research Questions**

- 1). What are the different definitions of globalisation, and what would be a sound definition in the sphere of production?
- 2). How does globalisation affect global production and labour?
- 3). What are the patterns of work-place restructuring that are emerging at Volkswagen as a result of globalisation?
- 4.). What appropriate responses are needed to deal with the negative effects of globalisation? And what are the policy implications for workers?

### **1.3. Expected outcomes**

The study project was intended to make a contribution by a) developing a sound and more thorough and precise definition of globalisation; and b) generating knowledge on how globalisation affects the South African labour market, using the auto industry as a case study. The primary contribution of this research will be to enhance policy intervention in the labour market. It is hoped that this report will contribute towards developing an effective response to the challenges posed by globalisation on labour markets. It is also hoped that it will generate outcomes that will have relevance to policy making and contribute to the better understanding of the impact of globalisation in the world of work.

#### **1.4. Research method**

This study project used a qualitative research strategy to look at the trends in workplace restructuring and the labour market. The study has drawn on interviews with senior officials of the South African Communist Party, the Executive Director of the National Association for Automotive Component and Allied Manufacturers (NAACAM), and the former government and NUMSA adviser on automotive industry restructuring. It was initially hoped that a focus group interview with shop stewards would be conducted, but due to insufficient financial resources and limited time a task of that magnitude could not be undertaken. A literature survey looking at globalisation in a broad sense and more specifically at the effects of global industrial restructuring on the national economy was done. The literature survey also looked at the literature resources of the International Labour Organisation (ILO) (World Labour Reports), UNCTAD World Investment Reports, publications by the Department of Trade and Industry (DTI) and other academic literature written on globalisation.

My research was guided by a conceptual scheme which I developed in critical engagement with some of the work done by Marxist critics of globalisation and their work on the industrial effects of global capitalist production on the skill and wage levels of workers. In assessing the appropriate responses to globalisation, I will use a “corporatist” understanding of how the state, labour, capital are supposed to co-operate in South Africa. Corporatism is grounded in a pluralist view of industrial relations. It suggests “social dialogue” or “social partnership” between labour, state and capital – where all these partners are involved in political decision-making on social and economic issues. The state most often regulates class conflict between labour and capital through various forms of intervention in the labour market, and seek to create consensus through give-and-take arrangements. Corporatism is realised through a set of institutions and practices that consider, debate, and give weight to social and economic policies. One such embryonic “corporatist” institution is the National Economic Development and Labour Council.

Data were gathered mainly through structured and informal interviews. The study is essentially analytical in its overview of the trends in global changes. It is more



descriptive and largely qualitative in examining the effects of global industrial restructuring at the plant level. Some of the concepts used and explained, which are helpful in understanding the current changes in global production, include lean production, flexible production and corporatism.

A case study of Volkswagen, a company which is said to have embraced the realities of globalisation, is included in the study and is used as a case to investigate the effects of globalisation in the South African auto industry.

### **1.5. Outline of chapters**

The second chapter of the research report looks at transformation of the world economy, tracing its historical evolution. The most interesting period in this regard is that between the late 1970s until the 1990s. A lot happened during this period and a number of changes took place in the world economy and the sphere of production in particular. This chapter will look at the phenomenon of a transnationalising economy, and examine the current debates looking at the positions of the “sceptics” and the “globalists”. The ideological current underpinning globalisation is also looked at in the second chapter.

The third chapter focuses on the economic crisis of the 1970s and how, following this crisis, production on a world scale began a process of transformation. This transformation in the sphere of production has been characterised by many theorists as a gradual shift from “Fordism” to “post-Fordism”. The chapter will also examine how this process, as well as the increasing organisation of production globally as shaped by transnational corporations, affects developing countries. Through examining these trends the chapter will show how national economies, state policies and industries are increasingly influenced and shaped by global processes.

The fourth chapter will provide a brief overview of the motor vehicle industry both globally and nationally in the current phase of world economic transformation or “globalisation”. One of the areas that this chapter will look at is increasing consolidation through mergers in the automotive industry. It will also look at questions of productivity, restructuring and employment trends in the industry. The

chapter will also explore developments in the national auto industry from local content Phase I through to Phase VI and the establishment of the Motor Industry Development Plan (MIDP).

The fifth chapter will focus on a workplace restructuring at the Volkswagen (South Africa) assembly plant in Uitenhage. It will examine broadly the implications of globalisation on workplace restructuring, with a specific focus on issues of employment patterns, training and skilling, labour-management relationships and employment patterns. The report will conclude with a final chapter that will look at appropriate responses to the gathering wave of globalisation and its likely effects in the auto industry.

The sixth chapter will conclude with some brief look at the appropriate responses to globalisation.

## **Chapter 2. Globalisation: An overview**

### **2.1. Background**

The transformation of the world economy has had a remarkable impact on the domestic political and economic space. The increasingly transnationalisation of production, which is marked and acts as one of the signifiers of globalisation, throws up a number of challenges both for the state and labour. Globalisation has been at the centre of the study of international political economy. Its precise meaning remains hotly debated. Helleiner uses Braudel's four axes in observing historical change: space, time, social orders and hierarchy. These are helpful in making sense of the changes in the world economy and understanding the origins of these changes.

According to Braudel, it is important to locate social life in a spatial context. Helleiner argues that economic globalisation is, after all, partly a spatial phenomenon. He invokes Anthony Giddens's definition of globalisation as an intensification of world-wide social relations which links distant localities in such a way that local happenings are shaped by events occurring many miles distant and vice versa (Helleiner 1997:91). In this sense, globalisation, according to Helleiner, can be viewed as a kind of "spatial compression". This is more clearly captured in the exchange of commodities and services between countries located at distant global points. Technology plays a crucial role in reinforcing and sustaining this "spatial compression".

In tracing its historical origins Helleiner holds that as a process globalisation began before the creation of the nation-state and may also be contributing to the nation-state's demise in the current era. He argues that, although it compresses space, it does not in any way eliminate its significance. Globalisation of financial markets has led to the concentration of financial market activity in cities, e.g. London, New York, Tokyo – and these have emerged as major financial centres.

From a temporal perspective economic globalisation is said to be an historical process which could be understood in terms of three phases:

1. Short time span



2. Medium time span (1850 – 1914)
3. *Longuee duree* (originated in the 14<sup>th</sup> century)

He views globalisation as embodying the acceleration of the speed of historical change (Helleiner 1997:95). From the *longuee duree* perspective, globalisation appears as a deeply embedded structure of the global political economy, a process highlighting continuities with the past. He suggests that “economic globalisation appears as a slowly expanding spatial envelope within which social life has been forced to exist since the 15<sup>th</sup> century” (Helleiner 1997:95). He also contends that globalisation often appears as a political weapon used and promoted by certain groups to bring local conditions more in line with global norms and dynamics. In the context of a capitalist world system, these forces often assume a class aspect. From an economic view, it is a process in which goods and services as well as various factors of production are increasingly exchanged on a world-wide scale. However, globalisation is not reducible to world-wide exchange relations that are part of the capitalist world system, as these have always been in existence. What is more crucial in understanding globalisation is its expansive tendency, which is an inherent feature and motivating force of capitalism.

Looking at globalisation from a Braudelian *longuee duree* perspective, Helleiner suggests that it began in the 15<sup>th</sup> to the 18<sup>th</sup> century with the first globally integrated long-distance distribution of trading luxury goods and precious metals by European merchants. It then accelerated in the historical globalisation phase of the period 1850 – 1914 with the rapid growth of world-wide financial transactions and trade in more bulky goods as well as a more extensive movement of people on a global scale. “Since the 1960s, economic globalisation has once again resumed and intensified in the financial and trade spheres and it has also been characterised by the emergence of a new kind of highly integrated world-wide production structure” (Helleiner 1997:97, 98). So it is quite clear that globalisation is not a novel phenomenon, though it does carry new features which have an important bearing on the organisation of production, the character and the role of the state, and the positioning of labour at the current juncture.

In terms of the novelty of these processes the critics of globalisation have argued that these processes are not new, except only in degree. In drawing some contrasts between the previous and the current trends, Arrighi argues that "...in 1913 foreign direct investment grew so rapidly that it amounted to over 9% of world output - a proportion still unsurpassed in the early 1990s" (Giovanni 1997). Similarly, the openness to foreign trade as measured by imports and exports was not markedly greater in 1993 than 1913 (i.e. 80 years ago) for all major capitalist countries except the US (Hirst and Thompson 1996:3, 4). This supports the argument that the internationalisation of the economy was as massive in the late 19th and early 20th century as it is today. They do not necessarily deny that there have been and still are changes in the world economy, but in essence they do not amount to changes in kind.

This was also observed by Bukharin earlier in the 20<sup>th</sup> century when he alluded to the fact that "a complete revolution in transportation facilities, wireless telegraphs, and telephone etc. completed the general picture of a feverishly rapid technical progress" (Bukharin 1971:21). Trade growth between the period 1903-1910 (7 years) increased by 50% (Bukharin 1971:38) as compared to a 20% increase between 1970 and 1990 (20 years) (Shafika 1997). It would seem from this general picture that earlier processes of integration were quite phenomenal compared with recent trends, if trade growth and investments are used as yardsticks. However, it cannot be concluded from this picture that there is nothing new in what we are experiencing in the 1990s. There are processes, globally, that point to an instance of economic integration, and these do have an impact upon the nation-state, developing countries in particular, and more than anything they reflect the different power relations between developed and developing countries more than ever before. These processes shape countries differently depending on where countries are plotted in the international hierarchy and international (global) division of labour.

Arrighi's seminal paper on globalisation argues that the coinage of the term "globalisation" compounds confusion by carelessly pouring old wine into new bottles (Givanni 1997). This suggests that what falls under the concept is not new at all or, as he puts it, it is only "new in degree and not in kind". He further argues that what we can learn from the ongoing debates about social transformation is that the world capitalist system is now at an impasse, that is it has reached its climax. This is often



characterised as a stage of crisis in capitalism. But the assumption that the world capitalist system has reached a climax is not clearly evident, more especially if one considers its ability to manage its internal contradictions in a way that sustains its logic of accumulation for a very long time. The capitalist world system may, at times, reflect crisis tendencies, as was the case in the 1970s with the crisis of over-production, but these do not in any convincing way indicate the decline of the capitalist mode of production.

The notion of globalisation has been defined differently by various theorists. The common thread running through all the attempts to define this process is that it facilitates social, political and economic integration on an international scale in such a way that processes taking place in one part of the globe affect what is taking place in other parts. This view comes closer to that articulated by Helleiner (1997). In the sphere of production, which this project aims to explore, globalisation can thus be defined as a process facilitating greater permeability and integration of markets in a way that shapes production patterns and work methods and tools to serve the interests of Transnational Corporations (TNCs).

The policy dimension of globalisation in nation-states is patterned along the regulatory framework of the multilateral organisations (World Bank, IMF and World Trade Organisation). This refers, for example, to macro-economic policies, trade and industrial policies. Sutcliffe and Glyn have also defined globalisation as “a phase in the capitalist system, which is characterised by diffusion of capitalist relations of production globally” (Sutcliffe and Glyn 1992:76). This diffusion of capitalist relations is essentially directed towards accumulation as its final logic, that is, maximisation of profit. Hoogvelt defines accumulation as the self-expanding value of capital. The expansion of capital is propelled by competition. Capital expansion has in the past taken the form of conquering new territories through imperialistic policies for the purpose of resource extraction and economic dominance (Hoogvelt 1997).

## **2.2. The ideological framework of globalisation**

At the abstract level globalisation is seen as embodying the ideology of liberalism (Davis 1996:16). The ILO World Labour Report intimates that “a popular view of globalization has tended to equate the process with the triumph of free markets. It is often perceived as reflecting the supremacy of liberal thinking – as seen since the end of the 1970s and more dramatically since the fall of the Berlin Wall – over more regulated or managed approaches to the economy” (ILO 1998:77). According to Cronin, neo-liberalism regards this phase of globalisation “as a necessity and something irresistible, and it presents the state as irrelevant” (Cronin 1999, personal interview). The ideas diffused by the neo-liberal paradigm clearly advocate the removal of all restrictions on the market and place an emphasis on strict fiscal and monetary policies. This is seen as necessary to boost investor confidence and to encourage more capital flow in the form of Foreign Direct Investment (FDI). The neo-liberal ideology which underpins these processes require all countries to open up their domestic markets to foreign capital, and it places greater emphasis on production for the global market through competitiveness, with export-led growth as a cornerstone.

This affects mainly macro-economic management in nation-states, and the relationship between capital (big business), labour (unions) and the state (government). The unions, for example, see the role of the state in the economy as being significantly rolled back and the market as having the most determining authority. The state in a capitalist society, in a Marxist sense, is seen as articulating the interests of the dominant class. Stephen Gill also alludes to the fact that the role of states to act in the interests of their own national economies is declining in the face of global market forces. Susan Strange (1996) also argues that globally there is a power-shift from state to global market forces, and the state is yielding its power to these forces. This, according to her, is most apparent in the sphere of production and in the structure of finance.

As globalisation intensifies, and South Africa gets caught up in the whirlwind of changes in global production, the schism between labour and the state is set to grow



much wider as the state would seek to manufacture consensus among various social forces to accept the current global arrangement, whilst at the same time seeking to derive benefits from it.

### **2.3. Globalisation and the auto industry**

Globalisation has significant implications for South African workers, in particular in the automotive industry. The automotive industry is tied to the global production networks of the parent company. Technological change as a result of global competitiveness necessitates new forms of training and skilling to keep up with the pace of change (Bird 1990:5). Being part of the world economy also means developing human capital to match the needs of a modernising and globalising economy characterised by technological innovations globally. South Africa has a huge human resource backlog because of its apartheid legacy of Bantu education. New forms of training are being developed at the industry level to match the global production requirements. This is in line with some of the considerations of the transnational corporations. The availability of markets, human resources, transport infrastructure and communication technology are some of these considerations (Dunning 1995:152). The intensification of competition globally and changes in work methods with the introduction of new technology are sure to introduce new forms of work processes in the form of sub-contracting, temporary workers and casualisation. It would be interesting to look at the extent to which these processes manifest themselves in the auto industry.

### **2.4. Globalist view**

Globalists, or those who have faith in the globalisation processes, see the world as progressively shaping into an integrated whole accompanied by the translocation of TNC activities in R&D (Research and Development) as well as innovations in, and the growing importance of, S&T (science and technology) and micro-electronics. These are some of the contours delineating the changes taking place with regard to work-processes, skills, wages and productivity levels. This perspective ignores the fact that these processes take place in a world characterised by uneven economic and industrial development. It also elevates these processes and views them as necessary



because they promote global competition in the interest of private firms (TNCs) and (supposedly) consumers. Kenichi Ohmae expresses harsher views on globalisation in articulating that states are no longer relevant economic entities, but instead they impede economic progress (Ohmae 1991).

Wade mentions that it is often argued (on the basis of the reflection provided above) by globalists that international capital has become overly powerful; that it transcends national borders ('footloose') and has no country to which it owes more loyalty than any other (Wade 1996:60). The "globalist" thesis thus welcomes, with alacrity, the current changes in the world economy as offering a possibility for the transformation of nation-states into municipalities of an un-regulated global village dominated by the interests of capital and unified by a common culture and inter-subjective norms. This view embodies a cynicism about the role of the state, predicts its demise and eventually its disappearance from the map of international relations. The proponents of this process adopt an uncritical stance towards globalisation. The critics, and especially those sceptical of globalisation, see these debates as largely a repetition of old debates in a new form. Susan Strange, for example, though acknowledging the pace of internationalisation of the economy and the retreat of the state, argues that the state is still an important (but not the only) entity and is not about to "wither away" from international relations.

## **2.5. The 'sceptical' account of globalisation**

The more sceptical scholars have often argued that the world is not truly global with the dissolution of national borders, as the globalists so cynically claim. According to this understanding, the role of the state still features prominently. Weiss and Panitch argue that states are not powerless but actively facilitate the process of "globalisation" (Weiss 1997:3). Weiss also expresses scepticism about the novelty, magnitude and patterning of the world economy. On the other hand, Panitch sees the state as part of the capitalist system of production, locked in that relationship as a framework for the realisation of the interests of capital - so states can never be wished away by the global trends as they are playing an important facilitating role. As also argued by Weiss, the state will simply adapt and carve out a new role for itself defined by the globalisation processes. In essence the current trends are engendered by states as

much as they are by capital as these two elements are in an inextricably interconnected structural arrangement. In terms of this view, what we are seeing is the modification or adaptation of the role of the state in line with the economic forces at play.

Taking into account the positions presented by these two opposing perspectives (sceptics and globalists), it is important to acknowledge the changes that are taking place on the international front and not blindly ignore what is taking place in different parts of the world. For example, the critiques of globalisation by Weiss (1997), Wade (1997) and Thompson (1996) have tended to focus narrowly on developed countries (particularly those falling in the triad Europe, North America and Asia) and have tended to interpret global events in terms of the dynamics taking place in the centres of accumulation in the North. Doing so tends to ignore what is taking place in the peripheral regions as well as the effect these processes have on the role and effectiveness of the state in pursuing the objectives of social transformation; it also places structurally powerless groups like labour movements in a more precarious position.

## **2.6. State-labour-capital relations in South Africa**

The process of globalisation, according to Dunning, is also intensified by the heightened competition among various governments to attract foreign capital (Dunning 1995:152). The globalisation process disengages capital from its place of origin and facilitates its cross-border flow. This partly results from the heated competition in the developed centres of accumulation and the need to open up new frontiers of accumulation on the periphery.

The movement of goods transnationally is facilitated by both technological innovations, as investment and trade deals can be concluded swiftly with the aid of technology, as well as by modernised transport facilities. In the earlier phase of the internationalisation of the economy, the growth of marine transportation facilitated the integration of world market and “accelerated world commodity circulation in astounding proportions” (Bukharin 1971:53). This implies both economic convergence globally and the shaping of macro-economic management in different



states in line with the global interactions and interdependence. This is more apparent at the level of firms as they are more integrated into global production and markets. This process also leads to social disarticulation as labour movements are the primary victims of the process, as well as having serious effects on environmental degradation.

It is often argued that if labour relations arrangements are not in favour of capital, that is when they are protective of labour and environmental standards, this will discourage foreign investment and South Africa will not be competitive. This means that the nation-state has to reflect or rather articulate global exigencies (internationalisation of the state), which in turn involves creating more flexible labour markets, which will be characterised in the main by the availability of an abundant pool of cheap labour. This process will also bear features of non-regular forms of work, e.g. casual, part-time workers, and sub-contracts.

This becomes more interesting when one looks at the dynamics of state-capital relations in South Africa, and the extent to which the current international changes affect the authority and the agenda of the state in the country. South Africa has emerged from a social structure where the majority of its people were at the bottom rung of the economic ladder. "The political economy of the South African transition away from the apartheid - like those occurring in the former communist-ruled nations - is taking place in the context of internal and external pressure to adopt neo-liberal reforms: such reforms will integrate the nation more comprehensively into structures of the global political economy" (Gill 1997:3).

In the work of Adam *et al.* (1998) it is argued that South Africa is a corporatist-consociational state (with weak consociationalism). This essentially entails the existence of an institutional framework that accommodates and normalises class warfare between labour and capital. The state, according to this argument, plays a regulatory or arbiter's role in the class warfare. They argue that "the state is neither an agent of capital nor labour but attempts to reconcile and arbitrate their conflicting interests according to the shifting pressure of the day" (Adam *et al.* 1998:158). This argument is rooted in liberal and some variants of social-democratic theories of social transformation, and it fails to take cognisance of the influence that the powerful "globalising" forces have on the character and role of the state in facilitating the

“class” interests of transnational corporations. In the context of a globalising world economy, where capital has structural power over the state and other social movements, it is impossible to conceive of the role of the state as neutral. The state is not, and cannot stand, above classes in society, it cannot be a trans-class institution. As Bukharin say: “...it should not be supposed that the state is something which stands above society and above classes. There are no supra-class elements in society” (Bukharin 1979:67). It is itself formed of class forces and is to a greater extent constrained by class factors, in particular as derived from the tension between transnational investment, which places conditions for deregulated labour markets on the one hand, and labour conditions and threat to unions on the other. A neutral state is a myth in a class society and in an increasingly “globalising” world economy.

Cerny differs from these views. He argues that the transformation of the nation-state into a “competition state” lies at the heart of political globalization. He further notes that the state and the market actors are attempting to “reinvent the state as a quasi-enterprise association in a wider world context” (Cerny 1997:251). As he puts it, this process does not lead to a simple decline of the state, but may be seen to necessitate the actual expansion of *de facto* state intervention and regulation in the manner of competitiveness and marketization; state actors and institutions are themselves promoting new forms of complex globalization in the attempt to adapt state action to cope more effectively with what they see as global “realities” (Cerny 1997:251). Cerny also argues that globalization does not involve the withering away of the state as a bureaucratic power structure. In terms of the process of globalization as it unfolds, the state is being increasingly reconfigured to play a role to the service of international economic actors. In a globalizing world “states play a crucial role as stabilisers and enforcers of the rules and practices of global society” (Cerny 1997:258). Clearly, states are becoming agents of international capital and multilateral institutions in creating a space for the advancement of their interests and bringing their practices in line with the practices of the global society.

Immediately after the 1994 elections in South Africa the democratic state was brought into power largely by the masses whose majority is constituted by the unemployed and the working class. The dominant perception amongst this group was that of a progressive state, a state sympathetic to workers. This perception was partly



confirmed by the subsequent passing of labour legislation. This included the Labour Relations Act (LRA, 1995) and the Basic Conditions of Employment Act (BCEA, 1997). However, the changes in the sphere of production globally circumscribes the space within which the state can sustain redistributive concessions to the labour movement. On the other hand, there have been sustained pressures from the business sector for a review of the legislative framework so as to entrench flexibility. Flexibility is seen as crucial in placing the economy on a competitive path in line with other developing countries.

The shifting character of the state away from redistributive politics to responding to global exigencies became evident in the macro-economic policy framework adopted by South Africa. The macro-economic framework (GEAR) in South Africa clearly marks the country's integration into the global economy, or the internationalisation of the state to respond to or reflect global economic exigencies. States are compelled to adopt market discipline and financial austerity in their fiscal and monetary policies. Chris Stals, the former Reserve Bank governor, alluded to the "necessity" of maintaining "sound" economic policies and stability, and asserted that the "punitive discipline" of the market is not unreasonable (Business Day, 12 May 1997). In order to compete globally South Africa is required to ease all market restrictions, e.g. tariff barriers, reducing the budget deficit, provision of incentives (in the form of tax holidays) to attract foreign capital, relaxation of exchange controls to attract foreign capital, and privatisation or restructuring of state assets. This also undermines the authority of states and economic accountability is transferred away from the nation-state to forces beyond state control (in particular the trinity of the World Bank, IMF and World Trade Organisation).

In the South African situation the state adopted a macro-economic policy (GEAR), which reflects neo-liberal fundamentals as indicated previously and is seen as placing South Africa on a "sound" basis for "international competitiveness". Within the labour movement and among the left in general this new trajectory in the economic front has been seen as a lame response to the globalisation process. This response has been articulated amidst growing concerns for redressing socio-economic imbalances through the redistribution of wealth (in the form of an increase in social spending: health, education, social welfare, housing, and infrastructural development) and



effecting increases in wages. These interests are evidently at loggerhead with the interests of capital (business). The logic of global capital produces the opposite of what states should be delivering – unemployment, impoverishment and marginalisation. Nations want independence and dignity; the logic of capital produces the opposite (Amin 1997).

Clearly, in the South African case, the ‘golden triangle’ comprised of state, capital and labour reflects a more regulatory role of the state in favour of the interests of capital - to be able to attract more FDI and place the national economy on a “competitive edge” in the global sphere. This newly acquired “balancing” or neutral role of the state was well articulated in one of the ANC’s discussion papers on “State and Social Transformation” (ANC discussion document, NEC 1996). This paper makes a strong case for workers to make short-term concessions so as to create a more “investor friendly” environment, and claims that the interests of the workers will be balanced against this reality. This paper was heavily criticised by those from the left, mainly alluding to the precarious position in which this arrangement places the labour movement and the shift that the paper represents away from social transformation to managing or regulating capital-labour interests in favour of capital (Cronin and Nzimande 1996). The emphasis in the South African political economy is on ensuring a “balancing act” that will require labour to make concessions in the short term with the hope of reaping fruitful benefits in the long term. This is akin to the trickle-down approach in which labour is supposed to tighten the belt so as to give way to the imperatives of growth, with the hope that redistributive outcomes will follow after a sustained period of growth.

This differs sharply from the emphasis of the Reconstruction and Development Programme, which was born out of consultation with the ANC’s alliance partners. Through various policy initiatives leading to the adoption of the RDP, the ANC was able to capture the aspirations of the largely poor masses in a document that would serve as a policy guideline for social transformation. This was a product of consultation not only among the tripartite alliance partners, but there were RDP forums across the country to solicit more views on reconstruction and development. The RDP base document placed more emphasis on achieving growth with equity. The RDP document, according to Hein Marais (1998), was a compromise achieved

between the liberal and the more socialist strand within the ANC. The final product of the document reflected some form of a social democratic arrangement - with a greater role for the state in the economy and with the emphasis placed on social service provision and human resource development. However, the RDP was soon abandoned in favour of a more neo-liberal framework, shifting away from growth with equity. Instead, social equity was seen as a “natural” outcome of, or would “trickle-down” from, growth. International capital was seen as the key to growth and courting capital was to be a necessary goal to be pursued.

This sudden shift in economic thinking in the ANC immediately placed the ruling party in sharp conflict with its alliance partners in the labour movement and the South African Communist Party (SACP). This conflict played itself out when, during the SACP’s 10th Annual Congress (1998), both President Mandela and Thabo Mbeki articulated a strongly worded polemic against the SACP and re-emphasised government’s commitment to neo-liberal policies. In his address at this conference, President Mandela re-affirmed the government’s faith in the document as a necessary policy document that will put South Africa on a sound basis for international competitiveness. This uncritical genuflection to market forces is, in Enoch Godongwana’s metaphor, like participating in a “beauty competition” where you stand to win if you can display the “slimmest legs and skimpiest costume” – and is inappropriate (Marais 1998:76).

Rodrik also argues that the scope of national policy makers has narrowed over the past three decades and the obsession to maintain “international competitiveness” has become a mantra of policy makers in the state (Rodrick 1997). This obsession with “international competitiveness” is driven by competition among different states to attract FDI and conclude as many trade agreements as they can. In this case the macro-economic policies serve as instruments or manifestos to lure investments and trade flows to their countries. In developed countries states may not exhibit similar tendencies – and it is important to emphasise this point as it reflects the nature of the power relations between developed and developing countries, and how, because of their location in the global hierarchy, they are affected differently by the trend towards “globalisation”.



## **2.7. The emergence of neo-liberal thinking**

The new thinking which emerged in the late 1970s centred on the relationship between the process of accumulation and the mode of social regulation which is an ensemble of institutional forms and practices (Tickel and Peck 1997:2). According to Harvey 1989:196), social regulation is also about “rescheduling” the crisis. According to Aglietta, the mode of social regulation is defined as “a set of codified social relations which have the effect of guiding and sustaining the accumulation process” (Aglietta, 1979:382). The mode of regulation defines the means by which particular forms of capitalist development are sustained and the means by which crisis tendencies are contained (Tickel and Peck 1997:4). Tickel and Peck argue that when an individual capitalist tramples on the environment, lowers wages, and destroys the trust system, he or she is simultaneously undermining the systemic requirements of capitalism (Tickel and Peck 1997:11). The growing ascendancy of neo-liberalism was supported by the crisis of the “Keynesian-Fordist” system. This new ideology of neo-liberalism was a reinforcement of an Adam Smith-like utopia in which markets are self-regulating mechanisms which, if left alone, will enter a state of equilibrium (Tickel and Peck 1997:11). The neo-liberal ideology places the blame squarely on the shoulders of the state for economic woes and advocates an unfettered operation of the markets as a sound instrument for creating equilibrium in society.

The emergence of neo-liberal thinking was, according to Leys and Panitch, “aimed at breaking the power of organised labour, expanding the scope of capital accumulation through privatisation, and replacing collective welfare by entrepreneurship and individualism as the legitimating values of liberal democracy” (Leys and Panitch 1998:20). These ideas did not find expression only in developed countries, but they were also diffused to the countries on the periphery.

The fact that certain parts of the world were in a much stronger and powerful position due to their earlier prosperity manifested itself in how the rules of the game were structured globally. The abrogation of capital controls by the US and later on by other developed nations of the world, and the increasing trend towards liberalisation and deregulation, also meant that developing countries were going to face the harsh



realities of the skewed power relations in the global political economy. This was to become evident in the position developing countries occupy in multilateral organisations like the World Trade Organisation (WTO). Most developing countries view this body as responsible for deepening the inequalities between the rich and poor countries. This point was argued, quite strongly, during the World Trade Organisation conference in 1998, where most leaders from developing countries accused the body of serving the interests of the largely rich at the expense of the poor (*Mail and Guardian* 22 May 1998). The globalisation process as it is currently occurring is, according to Cronin, embodied in this neo-liberal thinking (Cronin 1999, a personal interview).

## 2.8. Changes in the production processes

Production processes globally have undergone (and are still undergoing) restructuring to meet the demands of a competitive world economy. In South Africa the recent contract concluded with Volkswagen (VWSA) - a German auto subsidiary - to produce 65 000 Golf cars for the British market is a clear reflection of some of the dynamics characterising globalisation of production and the impact of this on employment patterns, productivity and wage levels (*Cape Times Business Report*, 19 May 1998). In this way VWSA is seen as a company that has embraced the reality of globalisation. The motor industry in South Africa – VW in particular – has been aiming for progressive tariff reduction on imported vehicles and auto parts. Processes of global production are, to a large extent, in line with the interests of Transnational Corporations (TNCs) and these are regulated globally by such institutions as the IMF, the World Bank and the World Trade Organisation (WTO). Production has mutated over a period of time globally from the post-war “Fordist” forms of production with Taylorist scientific management styles, and more flexible (flexible specialisation) “post-Fordist” forms are taking shape in most industries globally. This will be examined further in Chapter 2 of this research project.

The second chapter of this project will deal more extensively with the changes in global production and how these define the policy-making scope of the nation-state; it will also examine the effects of this on the workplace restructuring, with the potential perils this holds for the labour movement.



## **Chapter 3. Changes in global production patterns**

### **3.1. Background**

The period following the economic crisis that hit the major centres of production in the North (developed countries) in the 1970s was followed by shifts in the form of production from what was known as “Fordism” to “post-Fordism”. There is no single, homogeneous logic to account for the nature of this shift and the extent of its effects on various national production centres. However, there can be no denying that the changes that go with the current process of globalisation have effected important shifts in the organisation of production, the nature of work and methods of production. These shifts are part of an ongoing process of globalisation that is indissolubly intertwined with the capitalist mode of production and its tendency to expand. The crisis of profitability in the 1970s allowed various corporations located in the developed countries to spread their tentacles widely and organise production on a transnational basis. New concepts such as “flexible production” or specialisation began to gain popularity in the literature on the international political economy.

The organisation of production transnationally through the activities of the multinational corporations did not only break the strength of organised labour in the developed countries, but it also introduced new forms of proletarianism on the periphery. The new international division of labour is a significant part of these processes (Cronin J 1999, personal interview). The production process or the chain of production is broken up into various segments of production assigned to different countries, mainly on the periphery, but linked to the major centres of production in the North. The Volkswagen parent company was originally based in Germany, but the manufacturing process takes place in various localities, e.g. Mexico (the new Beetle) and South Africa (Jetta IV and Golf IV). It sources its tyres or other parts from different centres of production that may not be directly linked to the parent company in terms of ownership.

These changes not only point to new or emerging configurations of power dynamics in the world system, and global political economy in particular, but what is significant



here is that they draw our attention to forces that shape the restructuring of domestic industries in line with global challenges, and to the way these forces reconstitute the role of the state. We are living in an age where, increasingly, domestic economies matter very little and assume a secondary place to global economic processes. What this means essentially is that domestic industries are increasingly being shaped by forces outside the national economic boundaries. National economies are becoming mere appendages to the global economic order. The way in which the world is evolving in the sphere of economy suggests that serious changes in the configuration of power and organisation of production are taking place globally. In this chapter I will deal with changes in global production, with a special focus on the shift from Fordism to post-Fordism. The nature of these shifts and their bearing on national economies will be examined. The changing role of the state will also be looked at.

### **3.2. Fordism**

#### **3.2.1 An overview**

✕ Fordism has been defined as an “industrial technique pioneered by the American car manufacturer Henry T Ford, which combined a moving production line and a detailed division of labour amongst the workers with a relatively highly paid workforce who could provide a mass market for consumer goods” (Hyslop 1993:340). In his definition of Fordism, Jessop suggests that it “involves mass production of complex consumer durables based on moving assembly line techniques operated with the semi-skilled labour of the mass worker...(it) involves a virtuous circle of growth in relatively closed economies. This would be based on mass production, rising productivity based on economies of scale, rising income linked to productivity, increased mass demand owing to rising wages, increased profits based on full utilization of capacity and increased investment in improved mass production equipment and techniques” (Jessop 1994:253).

✕ According to Boyer and Durand, the Fordist system was also characterised by a greater emphasis on cost reduction and less on quality. Goods were produced *en masse* in the hope that a buyer will be found (Boyer and Durand 1997:11). The incentive for worker productivity was only based on extrinsic factors, e.g. high wages

– this was one of the benefits workers reaped from the system. According to Boys and Durand, during the 1970s consumers were turning their attention more to quality, durability and effective after-sale service (Durand and Boyer 1997:13).

Hoogvelt defines Fordism as referring to the system of production based on Henry T Ford's invention of the first motor car on an assembly line (Hoogvelt 1997:92). This system of production is part of the capitalist relations of production. It pervaded not only the auto sector, but also various other industries in the manufacturing sector. It became a defining feature of the global economy, more especially in the post-World War Two era until the early 1980s.

Broadly, some of the features of Fordism include:

- Mass production of standardised goods in industry and corresponding mass consumption;
- Production geared for national markets to boost the industrial base;
- Tariff protection from foreign competition. During the Fordist era there was scope for foreign competition (Kiely 1998:146). Greater emphasis was placed on domestically produced goods for domestic consumption;
- The role played by the state in the economy was significant (infrastructure, production and distribution) as well as welfare provisions;
- Stimulating demand through wage increase

Import-substitution industrialisation is compatible with the Fordist system and, according to Kiely “it stressed the developmental potential of industrialization through large-scale, capital-intensive technology serving national markets” (Kiely 1994:146). The system was also sustained by social accords, where labour compromised on fundamental class issues and industrial action, and in return gained distributive concessions in the form of higher wages and good working conditions. The state played a more regulatory role in the “golden triangle” of labour-state-capital. It maintained a delicate balance between these three elements and also played a significant role in welfare provision in society. High taxes were imposed and the benefits were siphoned to the entire population.



∞ Mass production had the advantage of achieving economies of scale. The greater the  
 ∞ production of a standardised product, the more the unit cost of production came down  
 ∞ and the higher the rate of profit. Mass production was balanced by mass consumption,  
 ∞ which was made possible by high wages and full employment. Hoogvelt sums it up as  
 follows: "State intervention in the economy has a Keynesian emphasis on full  
 employment, public sector expenditure, welfare provisions, social democracy and  
 workers' rights, and all these were novel elements in a complex societal arrangement  
 in which socio-economic management stabilised the relationship between production  
 and consumption" (Hoogvelt 1997:46).

∞ He further notes that "Henry Ford himself was quick to realise that the economies of  
 ∞ scale inherent in mass production could only be reaped if mass markets could be  
 ∞ created for mass produced goods" (Hoogvelt 1997:27). This point corresponds very  
 closely to, and further elaborates, Marx's argument in making linkages between  
 production and consumption, where production is seen as mediating and reinforcing  
 consumption. In his preface to the critique of political economy he asserted that "...  
 consumption also mediates production by creating for the products the subject for  
 whom they are produced. The product only obtains its last finish in consumption"  
 ∞ (Marx 1979:19). In this sense the existence of "mass" markets was essential for the  
 ∞ mass production process, and the state – through ensuring high wages – played an  
 ∞ important role in ensuring a continuous flow of the circuit of capital.

∞ This means, in the context of Fordism, that large markets for goods (consumption) are  
 ∞ essential to realise the objective of boosting high levels of production and ensuring  
 ∞ maximum accumulation of wealth (capital). In this sense, it is clear that without  
 ∞ consumption there can be no production, neither can there be consumption without  
 ∞ production. The continuity of the production process and the realisation of profits  
 ∞ depend to a very large extent on the availability of markets for goods. During the  
 ∞ Fordist era in particular high wages were crucial in ensuring that there is a demand for  
 ∞ goods thereby sustaining the framework of capitalist production.

In analysing the relationship between production and consumption, Marx also  
 intimated that, "...because consumption creates the need for new production,  
 therefore the ideal, inherently impelling ground for production which, is its

presupposition....also creates the object that is active in production as determining its goal. If it is clear that externally, production furnishes the object of consumption, it is no less clear that consumption ideally posits the object of production as an internal image, as a need, as a motive, as a purpose.....no production without a need. But consumption reproduces the need” (Marx 1979:19, 20). Production creates a base for consumption which in turn stimulates the need for more production – so this in the most fundamental way boosts the expansion of the capitalist world economy and is characteristic of the post-war Fordist period, which was also characterised by an economic boom. However, there was a crisis of over-accumulation and the over-capacity of the internal markets that were the real backbone for sustaining the Fordist system. This necessitated outward expansion of production and the circulation of goods internationally. Consequently, this presented a hard challenge for the Fordist system, and it could no longer sustain the kind of production system that depended on internal markets as this brought suffocation to the logic of capital to maximise its value.

The Fordist framework also contains within it a strong element of what Harry Braverman termed a detailed division of labour. This engenders “a process in which work is divided in detail, where the worker performs a repetitive and monotonous task which is empty in content, alienating and meaningless by nature, and cheap in value” (Bayat 1991:181). The worker did not have a sense of the holistic frame of the work processes as, for example, during craft production, but only focuses on the specific aspect of the job. There was not much co-operation among the workers or between the workers and the management. This was a classic situation of alienation, which Marx argues is dehumanising and alienating, and which Braverman describes as de-skilling. In terms of this framework of production the worker is assigned a more physical labour activity and mental labour is assigned a different group of personnel – mainly supervisors and managers (management). Workers operate more like machines, only taking instructions and executing different tasks associated with the production process.

The Fordist period is also known as a period that was characterised by expansion and growth in the world economy. The labour movement, mainly in developed countries, reaped some benefits in the form of high wages during this phase, and in turn they



compromised on issues of class struggle on the factory floor. At this time the state played a visible role in the economy, for instance, in the form of welfare provision and regulating labour-capital relations within the Keynesian framework underpinning the Fordist system. According to Mathews (1989:28), “the western labour movement shared in the prosperity, and its leadership subscribed to Fordist principles of labour management as the price to be paid for general affluence”. This essentially meant labour would conform to a new form of labour-management regulation brought about by the Fordist production system. This not only revealed the power of capital as a class, but also the fact that the labour movement would make rational choices which at times might displace ideological considerations for short-term gains.

### **3.2.2 The state and the mode of social and economic regulation**

The role of the state in the Fordist system is mainly conspicuous at the level of managing class conflict between labour and capital. It seeks to fashion a consensus which essentially entails a class compromise that would create conditions for general prosperity and welfare. This would be done through, among other ways, rising wages, full employment and a widened tax pool from which to generate financial resources to finance the social wage. The Fordist era as such was characterised by low levels of poverty and unemployment. The role of the state in this management process was essential to sustain the production system and hence the entire Fordist system. According to Jessop, the Fordist upswing provided for a material basis for a class compromise between capital and labour. The state also “invested in infrastructural projects; promoted economies of scale through nationalization or merger policies, encouraged Fordist mass consumption through intervention in labour markets and collective bargaining and through its provision for collective consumption” (Jessop 1994:255).

In this regulation framework, the labour-capital compromise, facilitated in the main by the state, shaped the evolving character of a social democratic arrangement at the time. The role accorded to the state was that of sustaining the capitalist relations of production through holding the balance between labour and capital, more as a regulator of a social-democratic compromise. This was done through providing for economic and social needs. Industrial action was a rare feature of the workplace

during this era as workers were rewarded through higher wages. High wages served two purposes. The first one was ensuring industrial peace, and the second one was to ensure that mass production was also met with high consumption.

According to Hoogvelt, the concept of the nation-state during the post-war settlement involved more than the mere notion of sovereignty: it implied a neo-mercantilist conception of the state as having responsibility for the administration and development of the national economy. It was the universally recognised task of the state to make the nation “stronger” (Hoogvelt 1997:47).

Jessop argues that the state is undergoing a fundamental restructuring and strategic reorientation in two key respects:

1. A tendential shift from the Keynesian welfare state appropriate to the Fordist mode of growth to a Schumpeterian workforce state more suited in form and function to an emerging post-Fordism;
2. A tendential ‘hollowing out’ (*instead of withering away*) of the national state, with state capacities, new and old alike, being reorganised on supranational, national, regional or local and translocal levels (Jessop 1994:251).

The essential point of this argument is that post-Fordism does have an effect on the organisation and functioning of the state. This argument locates the state as functional to the mode of social and economic regulation, and (capitalist) mode of production in general. As is implicit in Jessop’s argument, the state has served different functions over different periods and under different modes of social and economic regulation. Within the paradigm of capitalist production the function of the state has been that of intervening to sustain the mode of production. During the Fordist era this was by ensuring stability in the forces of supply and demand through high wages as well as welfare provision.

### **3.3 Crisis in the world economy**

The period beginning from 1970 saw a crisis, which has invariably been characterised as a crisis of over-production, and this had a disruptive effect on the Fordist forms of production and the role played by the state as an internal regulator in the economy.



The Bretton Woods system upon which Fordist mode of regulation was predicated collapsed in the 1970s when the US unilaterally abrogated the post-war financial arrangements, devaluing the dollar against gold, and abolished capital controls. According to Mathews, following the global economic crisis of the 1970s there was inflation and stagnation in domestic output in OECD. This was further exacerbated by the rise in Opec oil prices in 1974 (Mathews 1989:29). The 1970s global economic crisis was essentially a capitalist crisis of overproduction. The domestic market was saturated with consumer goods behind high tariff walls. It should be remembered that during the Fordist phase more emphasis was placed on production for the domestic market. According to Mathews, “by 1979, for example, in the US, there was one car for every two residents – and the road system had reached its full capacity” (Mathews 1989:29). Mathews further suggests that this saturation of domestic markets in the core led to intensification of competition for untapped markets on the periphery. This also raised possibilities for tapping a potentially large pool of cheap workers in the periphery.

The leap into post-Fordism, driven to a large extent by the need to restructure industry world-wide, saw the introduction of new forms of production – and it inaugurated an era of intensified internationalisation of production. There was a marked shift, at least in the developed parts of the world, from an inward-looking industrialisation using economies of scale characterised by reduction in the unit cost of production and an increase in unit costs produced targeted for the domestic market into a more export-oriented industrialisation. One of the strategies used to deal with the Fordist crisis has been, according to Mathews, outward expansion and internal contraction behind tariff walls; utilising computer-aided systems, and re-organising production (Mathews 1989:31). There has also been an intensified internationalisation of production accompanying neo-Fordist strategies, where core production processes involving technology are taking place in developed countries and various components are manufactured in developing countries.

Mathews suggests that in the auto sector this trend is in line with a strategy to produce a “world car” with interchangeable components manufactured in plants around the world, and the location of electronic plants in a South East Asian “export zone” to utilise low-wage female labour without restrictions. At the height of the transition

from the Fordist to the post-Fordist era, what was witnessed in most of developing countries – in particular the Newly Industrialising Countries (NICs) – was a strong mixture of these two models producing what can be characterised as neo-Fordism. The labour regime remained much the same as it was during the Fordist era in developed countries, albeit with important changes in other factors of production used, e.g. technology. These countries became part of the chain of production in the new international division of labour, providing cheap labour and engaged more in labour-intensive manufacturing processes. Even where technology is employed, workers are only equipped with skills that would reduce them to mere appendages of technology and machines with no total control over the process.

The emergence of a new division of labour has also been explained in terms of the globalisation of production. Part of this process is a related phenomenon of a spiralling global commodity chain, where various aspects of the commodity are located in different parts of the world. This is an important signifier of globalisation of production. This can also be viewed as the globalisation of the technical division of labour.

The establishment of Export Processing Zones (EPZs) in the less developed countries was a means by which to attract foreign capital. These zones offered very good incentives for TNCs in the form of deregulated labour markets, the availability of cheap labour and tax breaks. These incentives have, on the other hand, meant loss of control of the nation-state over economic activities, with adverse consequences in the form of poor working conditions and low wages (Kiely, 1998:48). In his description of these zones, Spybey views them as part of the territory of a nation-state, but exempt from all regulations that would normally apply to domestic or other companies that fall outside the bounds of these zones (Spybey 1994:89). These zones are used as vehicles for employment creation, albeit in harsh working conditions.

The relocation of capital to low-wage areas has meant de-industrialisation and unemployment in the centres of accumulation in developed countries. This was one of the areas of major contestation during the relocation of US corporations to Mexico as a result of the North American Trade Agreement (NAFTA). This pits workers from



developed countries against those in developing countries where low-skilled, low-wage jobs are believed to be relocated.

Technology was very much at the centre of a shift from Fordist to post-Fordist forms of production. According to Bayat, the production of new technology is sure to cause job-shedding on a massive scale in industrialised and industrialising countries. This will certainly have an impact on unionisation trends as an unemployment trend takes place simultaneously with the trend towards creating a more flexible labour market characterised by part-time jobs and the contracting out of work. Flexibility of accumulation driven mainly by technology inevitably creates flexible labour in the industry. Technology-driven manufacturing by definition increases productivity in the workplace, and if this remains constant one factor input (labour) is likely to fall. This is more acute in developed countries where shifting of labour intensive manufacturing to developing countries lead to significant job losses.

### 3.4 The post-Fordist era

In defining post-Fordism, Jessop asserts that it is characterised by continuity and discontinuity, thus describing a mode of regulation that surpasses Fordism. He further argues that it resolves the basic internal contradictions of Fordism, but also contains its own contradictions and crisis tendencies (Jessop 1994:256).

- α He suggests that as a labour process, it can be defined as a flexible production process
- α based on flexible machines or systems and an appropriately flexible workforce. Its
- α virtuous cycle would be based on: flexible production; growing productivity based on
- α economies of scope; rising incomes for polyvalent skilled workers and the service
- α class; increased demand for differentiated goods and services favoured by the
- α growing discretionary element in this income; increased profits based on
- α technological and other innovation rents.

- α The manufacturing industry in South Africa is still largely characterised by old
- α methods and processes, though there are processes underway to set in place new
- α conditions of industrialisation and create a new labour market climate. Conditions for
- α a full post-Fordist system are still lacking in South Africa. Sustaining this system will

require massive skilling and training, and thorough familiarisation with, and application of, the production concepts and practices. The character of South Africa's economy and industrial base has been invariably characterised as "racial Fordism". South Africa has, on the one hand, a mass of black unskilled workers, mainly involved in Fordist-type processes. On the other hand, there is a core of relatively skilled white workers who are technicians and work in the core processes of industry and the service sector. South Africa can be said to be somewhere between Fordism and post-Fordism, with the latter still marked in industrial activity. Kraak (1996), for example, posits a hybrid typology for South Africa, arguing that it reflects elements of different phases: Fordism, neo-Fordism and post-Fordism - all in one.

The post-1970 period saw a rapid expansion of international networks and production by multinational corporations (MNCs). This expansion was a response to the crisis of overproduction sustained during the Fordist era, and it sought to find new outlets for the oversupply of goods as well as expanding the avenues of production in areas where labour would be cheaper. This accelerated the division of labour on a global scale. According to Hoogvelt, capitalism by its nature tends towards expansion – incorporation of ever-larger areas of the globe to its network of production and accumulation. He points out that the 19<sup>th</sup> century stands as the prime time of the development of an international division of labour. It is estimated that in each decade of that century world trade grew about 11 times faster than world production. In 1913 the third world captured about 50% of world trade compared with about 22% today (Hoogvelt 1997:34). He suggests that the defining criterion of the international division of labour is its production of goods and services for sale in a market in which the object is to realise the maximum profit.

The post-Fordist form of production entails global industrial restructuring, work-place restructuring, the introduction of new human resource tools, the introduction of new work tools, and a new definition of work and skills. What needs to be noted is that some of the techniques used in the new era of capitalist expansion are modifications or innovations from the previous Fordist production system. There was what would be termed a continuity in discontinuity. The development of a new form of production did not necessarily mean an abrupt halt to all Fordist features. The shift from Fordism to post-Fordism was not a rupture, even in developed countries. Industrialising or



developing countries still bear strong marks of Fordist forms of production, more especially where non-regular labour is used in the manufacturing processes, or in areas where less skill is required. The labour-intensive sphere of production exhibits the tendencies of Fordism in its mass production nature and characteristically generates monotonous jobs.

Post-Fordism signifies a “revolution” in the way production within firms is organised. It places a strong emphasis on innovation, quality and productivity, accompanied by new tools of production. Here innovation refers to new ways of doing things using both “factor endowments” (technological inputs) and the effective utilisation of a skilled work-force as a “strategic asset” in the industry. The crucial catalyst in this new wave of production is technology as a key tool of production. Post-Fordism represents a remarkable, but gradual shift in the organisation of capitalism world-wide and the strategic location of firms within the newly defined global framework of production. The introduction of technology is not just a synchronisation with newly a defined production system, but crucially serves ideological ends – with the articulation of the interests of multinational corporations and the maximisation of profits.

These shifts are intricately part of the increasing internationalisation of production, which Strange identifies as making a major change in the structure of production globally (Strange 1988:63). The post-Fordist phenomenon is located at the very centre of these global changes. According to Kraak, it is characterised by capacity to produce a variety of products of high quality in small batches using new technologies (Kraak 1995:405). It does not alter the capitalist mode of production as such, but signifies a regulation of capitalist relations of production and its graduation to different dimensions, where it is able to overcome some of the weaknesses associated with Fordism. This graduation of the capitalist system, marked mainly by its shift from concentration and focus of production on domestic markets to outward expansion, has come to be associated with globalisation. It can thus be looked at as part of the birth of an age of an accelerated transnationalisation of production.

The new production system is based on concepts like lean production, outsourcing and sub-contracting. Production has to be “lean”. The lean production system

developed from the Toyota production system of the 1950s. The system was “lean” because it aimed to use less of everything and to cut costs while increasing productivity. This system emphasises a flexible labour force, team-work and multi-skilling. Fordist-style production meant huge economies of scale, big volumes and lowering costs. What just-in-time production means is that production goes ahead when orders and consumer information warrant it - hence the desire to keep labour flexible. This is more evident in VW where export orders are likely to generate employment opportunities, though these are likely to be on contract basis and may perpetuate flexible work processes.

### 3.5 Conclusion

With the increase in global competitiveness there is also going to be an increase in the levels of productivity (Martin 1998, seminar presentation). This productivity will be a product of rationalisation and restructuring of work processes, incentives given to workers, training and skilling, and commitment to “world-class” manufacturing.

Competitive pressures from NICs in developing low-tech and high-tech, low-priced quality products and the use of a flexible labour market and lax labour regulations will adversely affect other developing countries and force downward variation of wages and labour standards. Increasing internationalisation of production exacerbates the trend towards the flexibility of labour and the competitiveness of national economies to capture highly mobile capital. The South African manufacturing in general, and the auto industry in particular, will be looked at in the next chapter to examine the extent to which these global changes have had a bearing on South Africa. What is likely to be evident in the auto industry is the existence of the dual system, where shifts towards post-Fordism are not greatly marked by shedding Fordist methods of production, but these remain part of the system to serve the objectives of accumulation. What is also likely is the emergence of new trends or forms of proletarianism marked by part-time jobs, casualisation, and contract employment – and this will have a negative bearing on the organisation of labour in manufacturing, and in the auto industry in particular.



In the South African case, the government has, in consultation with its ‘social partners’ through structures like the National Economic Development and Labour Council (NEDLAC), packaged a set of labour market intervention initiatives. These provide a rearguard for workers against the ills of globalisation. The labour market regulatory framework includes the Labour Relations Act (1995), Basic Conditions of Employment Act (1997), Skills Development Act, and Employment Equity Act (both 1998). This policy response has, in many instances, come under severe criticism from the business sector and has been accused of rigidity and warding off foreign direct investment. There is so far no evidence pointing to the correlation of strong labour market intervention policies and a decline in foreign investment in South Africa.

## **Chapter 4. Global trends in the automotive industry and developments in the domestic sphere**

### **4.1. Background**

This chapter will look at the global trends that have recently occurred in the auto industry. The auto industry has been going through qualitative changes, and these have manifested themselves in their clearest form in the mergers and acquisitions, changes in production techniques in line with the shifts from Fordism to post-Fordism as well as changes in the location of production activities – with assembly and export platforms found in the developing regions of the world, while the more technologically concentrated and design activities have been retained in the developed parts.

The second part of the chapter will look at the development of the national automotive industry from the early days of the local content programme, when the industry was still enjoying strong protection from the government in the 1960s until the early 1990s. This will be a more exploratory chapter and provides a picture of developments in the South African automotive industry from Phase I until Phase VI of local content as well as the Motor Industry Development Programme (MIDP), which is a cornerstone of competitiveness, rationalisation and innovation in the industry. The final part of the chapter will critically evaluate the changes from Fordism to post-Fordism in the context of South Africa's industrial restructuring and integration into global markets.

Anthony Black argues that “the production of motor vehicles is one of the world's largest industries. It is also an industry in which major international shifts in the location of production are occurring as transnational corporations seek to globalise their production and markets” (Black, 1994:4). He further observes that the industry is at the cutting edge of technological revolution and product development. The auto industry does typify the changing structure of global production. At the high end of its production – research and design, and product development – there is a heavy reliance on skilled workers, and the process is mainly technological driven, whereas at the low



end (e.g. final assembly), there is more reliance on unskilled and semi-skilled labour. The low-end processes involve mainly manufacturing and assembling and are located in the developing countries, whereas the high-end activities are retained in the developed world, mainly in Japan, Europe and North America – what Ohmae (1991) terms the triad. Major auto producers develop multiple bases, making use of factor advantages, e.g. availability of cheap raw material and cheap labour in developing countries, and strong infrastructure and skilled labour in the developed regions of the world.

Volkswagen is said to be the only European producer with a true multinational presence. VW is a mass producer in the Fordist mould (Black, 1994:12). Black argues that the location decisions of the multinational producers clearly have massive implications for industries in developing country. VW has located over 15% of its production to developing countries (Black, 1994:13). Their locational decisions have a bearing on the labour market policies and the regulation of industrial relations.

#### **4.1.2. Consolidation in the auto industry**

The Daimler-Benz merger with Chrysler is one of the most phenomenal linkages that has ever taken place in the last (1990 – 2000) decade in the motor industry in particular. In the wake of this merger the global car industry is said to have become infected with a virulent form of ‘mega mania’ (Taylor 1999, *Fortune Magazine*). This is attributable to a number of factors. One which has been widely discussed within the auto industry circles is over-capacity and competitive pressure. It is said that many brands have over-capacity – which essentially means that their production is beyond what the market can be able to carry. There are many vehicles that are already on sale than there are available buyers. This has led to a decrease in unit sales of vehicles. This has the potential of ‘naturally’ lowering prices and may lead to a decline in employment in the auto industry if this trend continues unabated. Mergers are seen as a possible strategy to overcome the over-capacity problem by limiting auto firms, and instead have a handful of companies that compete in the market. This can yield positive benefits with regard to technological capacity as well as broadening the research and development scope. Taylor (1999) disagrees with the notion that mergers would bring any meaningful changes, and instead argues that they will bring a new

form of over-capacity, and this will take place under one roof. Mergers and acquisitions do raise serious questions about social problems that are likely to emerge, as merging companies are likely to shed a large number of their employees as part of “cost-cutting” mechanisms.

In most of the global business literature companies and organisations place their emphasis on combining their strength, resources, expertise and technologies to maximise globalisation benefits. This enables them to create synergy and shore up their intellectual capital so as to ensure world-wide benefits. In an increasingly “globalising” world economy companies see the most strategic option as moving to greater levels of innovation and quality if they are to remain competitive and to remain on an upward technological curve. Mergers are said to serve the purpose of broad-banding. This means that companies would, besides innovation, derive more scale economies than they did before – and this would translate into increasing rates of returns. Taylor criticises the merger strategy for having the downside of losing the advantage of agility and focus (Taylor 1999:13, *Fortune Magazine*). BMW is quoted as a company that opted for focus and maintained an undiluted image. It has determined to continue upward movement in terms of brand and image. This has gained it the status of being one of the best-positioned global automotive manufacturers (Taylor 1998, *Fortune Magazine*).

Mergers are, in the main, motivated by competitive pressures in the auto industry. As suggested above, mergers seem to be trimming the global auto industry to few companies and this is likely to spark a titanic battle for market share and profits in the global competitive turf in the auto industry. Volkswagen as a global organisation is facing these competitive challenges and is in a way forced to respond to these pressures by innovation and upgrading. This has recently become evident in its attempt to acquire Rolls Royce (but it was out-manoeuvred by BMW in this deal, and only allowed to use the brand-name until 2003, after which it will share it with BMW) and the introduction of a new Beetle, which is already on the market, mostly in North America.



## **4.2. The development of the South African auto industry**

### **4.2.1. Background to South Africa's local content programme**

In developing its industrial capacity South Africa's auto industry relied heavily on import-substitution industrialisation, which was linked with strong tariff protection. This type of industrialisation was very prevalent in the 1960s. The auto industry, at this time, also introduced a series of local content programmes from Phase I to Phase VI. These local content programmes were designed to protect the domestic industry by stipulating the mass of content used in the production process to be sourced locally. The last phase (VI) was an attempt to move away from the local content programme and position South Africa's auto industry on a sound platform for international competitiveness.

The auto sector in South Africa is faced with an inescapable reality of stiff and harsh international competition. This, as indicated above, introduces challenges of its own for the entire industry, trade policies, industrial policies and the work force. 'Globalisation' transforms the world of work and creates new challenges and opportunities for the domestic economy. These challenges call for new, creative and innovative strategies to engage with the global economy, in particular the pressure of international competition. The state, capital and labour are pushed into a form of partnership that will ensure stability in the production process as well as a stable industrial relations environment. The interests that are dominant on the global landscape are mainly those of the transnational firms and states are courted to ensure that these interests find expression, in an undeterred way, in the domestic sphere. Since the early phase of the industry's development the state has, one way or another, played a critical role.

The auto sector is a sector that has enjoyed many years of large-scale protection by the state during the import-substitution industrialisation (ISI) phase. In the 1990s, with the gathering of international momentum for competitiveness, the state shifted its emphasis from local content and its approach to tariffs. The introduction of the Phase VI programme correlates with the requirements of GATT and it seeks to boost growth

in the industry in the area of exports, and do away with long-established protective measures. So far, it seems, with the exponential growth and impressive performance of the export sector of major producers (Delta, VW, Mercedes-Benz), the Motor Industry Development Plan (MIDP) has clearly had a positive impact on the industry. The recent spontaneous strike by some VW workers and the indefinite shutdown of the plant due to internal battles within the union (NUMSA) is, however a great cause for concern, mostly for government, policy makers in the industry and the business sector in South Africa. However, this does not seem too serious a rupture to prompt speculation on the negative effects on investments in the long term.

In terms of the over-arching GATT framework, national policy priorities are to be subjected to a global trade regime. This will force the domestic industry to meet not only the requirements of the trade regime, but also the standards of world-class manufacturing. According to the ISP, GATT also circumscribes national trade policy options and focuses attention on supply-side interventions (Joffe *et al.* 1995:52). With the latest review of the MIDP indications are that the phasing away of protective measures will be gradual – which is an approach that is welcomed by both labour and management in the auto industry. This does not, however, put South Africa in a wholly comfortable position as the long-term effects of globalisation will still manifest themselves. In the short term the industry will still enjoy limited protection.

South Africa's programme of import-substitution industrialisation was in many ways similar to that followed by Latin American countries. In a manner that is quite similar to these countries, production was mainly intended for the domestic market and the South African assembly plants were kept isolated from the global production networks of the parent companies. According to Black (1994), there was an explosion of domestic markets in the post-war period, reaching 107 000 vehicles (Black 1994:51).

South Africa's problems with its balance of payment at that time led to the introduction of a series of local content programme. In terms of these programmes, local sourcing of items such as tyres, batteries and trim was required (Black 1994:51). The first phase of the local content programme began in 1961. By the end of the second phase of local content programme in 1971, net local content reached 52% by



mass. Under Phase III local content (on a mass basis) was to reach 66% by 1977 for “manufactured” articles. There was not any additional requirement for Phase IV. Black (1994) characterises this as a consolidation period. Phase V, which was introduced in 1980, applied a local content requirement of 50% for light commercial vehicles rising to 72% in 1982 (Black 1994:51). The desire to save foreign exchange was cited as the main motivation for increasing local content programme, and yet this contributed negatively to the competitiveness of the industry both domestically and internationally. It is clear that the shielding of the auto industry from foreign markets affected its competitiveness adversely and did more harm than good to the overall state of the economy. What can also not be disputed is the fact that South Africa’s industrial productivity has always fared poorly when compared to that of other industrialised or industrialising countries. Black argues that automotive industry productivity is low in South Africa but is improving rapidly. He further notes that data collected by the International Motor Vehicle Programs (IMVP), based on surveys conducted in 1994 and 1996, showed that the average South African assembly plant compared very poorly with assembly plants in other countries (Black 1996:16). He attributes this poor performance to relatively low levels of automation and the complexity of most assembly plant,s which produce a range of models in relatively low volumes (Black 1999:16).

The introduction of Phase VI of the local content programme and the subsequent formulation of the MIDP plan has at least brought some improvement with regard to the industry’s competitiveness. Had there been openness during the early phases of its development, the industry would not have been productive or competitive either; instead the already chaotic state of the industry could have been worsened. There was also less pressure for liberalisation, which made the industry more lax and comfortable with the levels at which it was producing and distributing. The new Phase VI local content programme introduced in 1982 was set to reverse this trend and dissolve the industry’s tight protective walls, thereby exposing it to international competition. It was intended to achieve the following objectives:

- The promotion of investment, job creation and growth;
- Satisfaction of the country’s essential transport requirements;
- The improvement of productivity;

- Minimising price increases (Black 1994:53).

These areas were identified as critical in dealing with the bleak macro-economic picture and stunted industrial productivity. It was hoped that new investments would create new employment and facilitate skills development, which would further lead to more productivity. The underlying thinking was more akin to the current economic rationale, which places a greater premium on market forces to facilitate economic growth.

In terms of the sixth local content programme, there was a change of focus from mass to value. The Motor Industry Task Group (MITG), appointed in 1992 was, amongst other things, set to re-examine the (local content) programme and the whole future development of the industry (Black 1994:53). Its future development had to, in one way or another, be aligned to the macro-economic package and be realised within its constraints and objectives.

According to Black (1994), Phase VI constitutes a structural adjustment programme for the motor industry and one of its positive spin-offs has been the dramatic increase in exports. Volkswagen (South Africa) exports have risen from R30 million in 1989, which consisted mainly of used tools, to approximately R500 million in 1992 (Black 1994:57). The period between 1989 and 1992, marked by the introduction of Phase VI, also saw the loss in employment in the component industry of nearly 20 000 jobs (Black 1994:61). This period also marked the beginning of a general loss of employment in manufacturing, accounted for mainly by retrenchments at a rate of about 100 000 a year. What, at least at the moment, will prevent huge job losses at Volkswagen is the R5,5 billion export contract that was secured in 1998 for the production of the Golf IV for the British market. Volkswagen produces and exports about 40 000 vehicles to the UK market, with a projected new investment of about R1 billion for the next five years (*Business Day*, 27 January 2000).

Though the series of local content programmes introduced in South Africa in the past is responsible for the lack of competitiveness in the industry, liberalisation and the accelerated move to integration into global markets, if not done circumspectly, is likely to prove fatal. Local content within a clear industrial strategy aimed at



revitalising the auto industry is more viable. In the Argentinean case rapid liberalisation was followed by the virtual collapse of the motor industry as imports flooded into the market (Black 1994:120). This flood of imports may have adverse effects on the balance of payments. South Africa's industry in many ways exhibits features of an infant industry (more especially the auto industry) and does need a certain degree of protection and support to cushion it against the harsh effects of international competition and global markets.

#### **4.2.2. Level of automation and productivity**

Low levels of automation, low assembly plant productivity and under-utilisation of capacity mean South Africa compares poorly with other countries in the developed and newly industrialising regions of the world. Measures that seek to boost plant level productivity and achieve optimal efficiency, for example "quality circles", just-in-time production, automation and lean production, are not as yet fully developed in the South African auto industry. Where these are implemented it is for the purpose of strengthening management's control over labour and giving workers more tasks in the name of multi-skilling and job-rotation. Conditions for effective implementation of more co-operative industrial relations and democratic forms of work organisation are not as yet fully matured in the South African industry. South Africa's industrial relations system is still characterised by an adversarial relationship and lack of trust between management and unions. However, it needs to be said that different pieces of labour legislation developed over the years have helped to shape a co-operative environment in the workplace and brought new challenges that compel workers and management to co-operate on major production-related issues. For example, the Labour Relations Act of 1995 emphasises consultation, information-sharing and joint-decision making as central features of the newly emerging industrial relations environment in South Africa.

Productivity improvement in the workplace through new forms of work organisation and production systems will, by and large, depend on workforce motivation which will be a product of a combination of factors including incentives, management transparency, training and skilling.

Black (1994) argues that the industry failed to keep up with global developments due to excessive protectionism in the past (Black 1994:102). He also makes predictions that by the year 2005 the industry is likely to be a large and dynamic industry which is supplying affordable vehicles to a substantial and growing domestic market. He further predicts that it will, in the future, be able to export vehicles and components on a significant scale to an emerging African market as well as to other countries; operating close to the international cutting edge of technological development, and will develop significant capability in certain areas of product and process technology; characterised by world-class production organisation, rapid growth in exports and balance in trade in the industry (Black 1994:103). It must, however, be stated that this will depend on the stability of the world economy, the rate at which South Africa's economy grows, and how quickly the auto industry reaches efficiency levels that would make it attractive to the domestic industry in terms of price affordability. At the moment economic growth is not so impressive, though there are few signs of recovery. In two successive years (1989 and 1999), the auto industry fared quite badly in the market, with vehicle sales taking a deep plunge. With the prospects for a further decrease in interest rates for the current year (2000), emerging markets showing positive signs of recovery, and a rise in commodity prices and a surge in exports, the auto industry is indeed set for major growth in the next coming years.

#### **4.2.3. Future liberalisation strategy and growth of the industry**

The labour movement has always contested South Africa's "holier than GATT" attitude to trade liberalisation as such liberalisation is likely to have disastrous effects on infant industry in the long run. After a long period of protection and import-substitution industrialisation, South Africa cannot afford to place itself at the mercy of the harsh consequences of global restructuring through rapid liberalisation. This has to be a gradual process linked to other related programmes, e.g. industrial strategies for key sectors of the economy, active labour market policies and significant innovation in the industry.

Black (1994) proposed gradual liberalisation in the industry. Liberalisation is already on track, reinforced by a "free-market" economic rationale in the form of GEAR. However, fears have been expressed, both by employers and workers, about the



dangers of accelerated reduction of import tariffs on industrial productivity and employment sustainability. The Industrial Strategy Project (Joffe *et al.* 1995) argues in favour of the sharpening of the flow of incentives from the international market in part by easing the access of international producers to our domestic markets and in part by accelerating the entry of South African products into the international markets (Joffe *et al.* 1995:46). The ISP proposals are not markedly different from the one made by Black (1994) on the gradual easing of protective measures. The report essentially recommends that trade reform must be pragmatic and gradual, and that to a limited degree there remain a role for protective tariffs (Joffe *et al.* 1995:51). Black (1994) also proposes that liberalisation should be directed at putting pressure on the industry to upgrade, to reduce input costs both into assembly and into components production so that exports can compete; and to encourage specialisation to attain higher volumes and economies of scale (Black 1994:114). The current approach to liberalisation followed in the auto industry is that of gradual phasing out of tariffs – that is, maintaining minimum protection at the same time as integrating South Africa into “globalism”.

In order to ensure that the industry moves away completely from an inwardly concentrated approach and becomes more competitive, rationalisation of its structure and reduction of local assemblers become imperative. Black (1994:116) suggests that this can be achieved through a combination of strategies, which include: a prohibition on new assembly plants being established by new companies coming into the market; the introduction of a system of penalties and incentives to encourage volume production; and a reduction in the number of models being assembled domestically (Black 1994:116). South Africa has four major areas of automotive production with seven producers. SAMCOR, BMW and NISSAN are located in the Pretoria region. Toyota is sited in Durban, Mercedes-Benz in East London and VW and Delta in PE-Uitenhage. Some of the proposals by Black (1994) and Joffe *et al.* (1995) on phased liberalisation and the reduction of models and increase in volumes have since been incorporated into the MIDP plan for rationalisation of the auto industry. The following table shows the market share of the seven producers.

**Table 1. Market share: Passenger Cars (Sales 1998)**

<u>Company</u>	<u>Market share %</u>
1. Toyota	20.8
2. Volkswagen	18.4
3. BMW	5.7
4. SAMCOR	12.2
5. Daimler-Chrysler	7.6
6. Nissan	4.8
7. Fiat	2.9

Source: Department of Trade and Industry, 1999.

#### **4.2.4. The Motor Industry Development Programme (MIDP)**

The Motor Industry Development Programme (MIDP) is said to represent a change of direction in the government's policy towards the motor industry. The MIDP began in 1995. The policy, introduced in September 1995, is aimed at the development of an internationally competitive and growing automotive industry which is able to:

- Provide high-quality and affordable vehicles and components to the domestic market;
- Provide sustainable employment;
- Make a greater contribution to the economic growth of the country by increasing production and achieving improved sectoral trade balance.

According to the Department of Trade and Industry review, these national objectives are to be achieved by:

- Encouraging a phased integration into the global automotive industry;
- Increasing the volume and scale of production by the expansion of exports and gradual rationalisation;
- Encouraging the modernisation and upgrading of the automotive industry in order to promote higher productivity and facilitate the adjustment process.

The review further states that the major policies by which these objectives are to be pursued are:



- A gradual reduction in tariff protection and the abolition of local content requirements so as to expose the industry to a greater international competition;
- The encouragement of higher volumes and a greater degree of specialisation by allowing exporting firms to earn rebates on import duties;
- The introduction of a range of incentives which are designed to upgrade the capacity of the industry in all spheres.

(Department of Trade and Industry, 1997:2).

**Table 2: Tariff phase down under the MIDP**

	Built up vehicles %	OE components %
1995	65	49
1996	61	46
1997	57.5	43
1998	54	40
1999	50.5	37.5
2000	47	35
2001	43.5	32.5
2002	40	30

Source: Anthony Black (1999:4)

Greater volumes are required if the component sector is to be able to reduce unit costs in order to compete with the imported product. It seems that to a large extent the latest review of the MIDP (1999) has set out to achieve evolutionary phasing out of tariffs, even after 2002, and this is necessary for the industry's long-term health. In the small passenger vehicle section this will be at 40% in 2002 as shown in Table 2. One of the difficulties that besets the industry is said to be the lack of substantial investment in new technology and R&D compared with other NIC countries as well as poorly developed linkages to governmental and other research institutions such as CSIR; there is also an excessive dependence on foreign licensors (Black 1994:117). Japan, for example, offers a good example of strong linkages between government and industry and through the Ministry of International Trade and Industry (MITI) the

Japanese industry and business in general receive major support for exports and for strengthening their competitiveness in the market.

Government's impression of the automotive industry restructuring is generally positive. It views the impact of the MIDP to date as being generally positive as prices of vehicles have been reduced in real terms, exports are growing rapidly, investment has increased and positive structural changes have occurred (DTI 1999:3).

#### **4.2.5. Human resources and skills development**

The profile of skills in South African manufacturing still manifests Taylorist tendencies of worker control by management, separation of conception and skill from the workers in the production process, and strict demarcation between tasks (Joffe *et al.* 1995:187).

According to the ISP, "human resource development is the product of a much wider set of interventions – it includes the corporate governance systems and work organisations, industrial relations, remuneration and other incentives systems" (Joffe *et al.* 1995:186). The year 1998 saw the introduction of some labour market intervention mechanisms in the form of the Skills Development bill and the Employment Equity bill. These two pieces of legislation are quite closely related, as they both attempt to address labour market ills and upgrade the skills profile of South Africa's largely unskilled labour force. Their intervention is directed towards breaking human resources backlogs and dealing with any discriminatory practices in the workplace in the area of employment. The Skills Development bill, in essence, attempts to do away with the racialised skills hierarchy which underpins South Africa's Fordist production practices. The objectives of the Skills Development bill can be encapsulated as follows:

- To provide for the establishment of learnership that leads to recognised occupational qualifications;
- To provide for the financing of skills development by means of a levy grant scheme and a National Skills Fund.



Placing South Africa on a competitive path would require ensuring, through legislated means, a mechanism that would provide for the continuous skilling of workers. This is one of the critical elements in the shift from Fordism to post-Fordism. As South Africa seeks to embrace post-Fordism in its work and production practices, the area of human resource development cannot be left out of consideration.

The Skills Development bill that was passed in parliament in 1998 is an attempt at closing the skills gap that exists in the labour market. The labour union initially argued for a 4% contribution by employers from the annual output. They have since moderated their demand from 4% to 1%. In terms of the Skills Development bill employers are required to make at least a 0.5% contribution towards human capital formation. This is calculated as a percentage of the annual wage bill.

The green paper on skills development is, according to Kraak, an approach which prioritises the role of the state in the economy, especially in establishing the institutional, infrastructural and inter-locking policy requirements which are needed to underpin both equitable social development and successful incorporation within the global economy (Kraak, 1997:74). He argues strongly for an emphasis on a 'high skills' economy, which is achievable through balancing the market and the state. This is clearly a very thin and delicate balance which, in the context of globalisation, may not be sustainable for a very long time.

Skills development initiatives in particular do imply an interventionist element by the state and a means of ensuring that the exposure of the workforce to globalisation realities does not become detrimental. This, according to Kraak, can be more effectively done through a social contract between the state, labour and capital (Kraak 1994:33). The introduction of the Skills and Development bill as well as the Employment Equity bill can also be viewed as a mechanism to implement social equity and human resource development at the workplace which holds out good prospects for the growth of the economy in the long-term. Kraak views these measures as critical for continuous skill formation and lifelong learning, broad education and training to enable maximum mobility across differing employment sectors, the reduction of unemployment through retraining and job placement

programmes, and the reduction of race, class and gender-based labour market discrimination.

In terms of the skills development green paper 80% of the industry allocation will go to enterprise-based training and 20% to the National Skills Fund. The latter will be responsible for allocation to target groups. According to Ray, the new skills development strategy addresses issues related to the structural unemployment crisis and the need for higher productivity, competitiveness and economic growth, and improving the skills profile of South African workers to meet the needs of a modernising and globalising economy linked to competitiveness (Ray 1998:39). The skills development initiatives are as much tied to globalisation as the need for innovations in industry and the introduction of new work methods.

Regulated skills development is sure to improve the general skills level of workers in the formal sector in the long run, and lead to a 'high skills' economy. This will also play an important role in reinforcing the initiatives already taken in the auto sector in the area of education and training, job grading and wages. This initiative was part of the three-year national bargaining agreement signed between NUMSA and management. This gives wider scope for improving labour mobility, worker motivation and productivity in the workplace. The benefits will accrue to both employers (in terms of productivity increase) and workers in the form of skills upgrading, mobility and possibly wage increases.

#### **4.2.6. New work organisation**

NUMSA has taken a proactive stance on issues pertaining to training and grading, which were put forward for pressing attention in the National Bargaining Forum as major bargaining issues. "A framework which links work organisation, issues of training, grading and wage levels provides a sounder basis for implementing important changes in production" (Black 1994:119). These issues were covered quite extensively in the 1995 "Three Year Bargaining Programme" in the auto sector. What they also at least guaranteed was job security during the restructuring phase. Workers feared that new technology can bring about major job losses in the auto industry and hence an agreement guaranteeing job security became necessary.



The new work organisation and lean production system that characterised Japanese industrial production cannot take effect in most South African industries until there is thorough transformation of the corporate culture and hierarchical management. In its report the ISP notes that “in many South African companies, a hierarchical managerial style, together with conflictual relations on the shopfloor, results in some of the elements of lean production being misrepresented” (Joffe *et al.* 1995:195). Related to this, the ISP report cites the following examples:

- ◆ Multi-skilling is understood to mean worker interchangeability (that is multi-tasking).
- ◆ New technologies are utilised to both intensify and enhance surveillance and control rather than improve quality, reduce waste and enhance efficiency.
- ◆ Cost reduction focuses on the use of sub-contractors and temporary or part-time workers rather than on enhancing multi-factor productivity and on improving work organisation.

Workplace decision-making is seen as a mechanism to by-pass trade union representation rather than part of the democratisation of the workplace and achieving decentralised competence. It is also noted in the report that “restructuring to achieve lean production in South Africa came to be associated with displacement, rationalisation and retrenchment” (Joffe *et al.* 1995:195).

Though there is no identifiable trend at the moment indicating the replacement of full-time workers with temporary workers and sub-contractors, this is likely to happen in the long run as the intensity of globalisation increases and as the auto industry is pressured to speed up tariff reduction and workplace restructuring. The labour movement, preoccupied with these fears and concerned about the lack of transparency of management, is likely to “problematise” certain elements of new production methods, more especially those that are seen as likely to threaten wage and job security. These fears may upset South Africa’s industrial relations and cause more instability. In dealing with these fears it would help to consider some of the policy principles proposed by the ISP in its report.

The ISP developed a set of policy principles loosely termed ‘Intelligent Production Strategy’ to increase productivity and promote efficiency. The Intelligent Production Strategy’ proposed the following principles:

- ◆ Constant skill acquisition;
- ◆ Reorganising work along team lines;
- ◆ Broadening the notion of productivity;
- ◆ Democratic practices in the workplace (Joffe *et al.* 1995:205).

These principles delineate both the form and content of the preferred work methods in South African industry, but they can only be effectively applied in an environment where there is an atmosphere of trust between union and management, and a commitment from management to new production techniques including capacity building for workers and the labour movement. Capacity building and rationalisation are two sides of the same coin in the ISP’s “Intelligent Production System”. There is an urgent need for effective capacity building for unions if they are to participate meaningfully in the restructuring processes in the workplace and sustain the energy to make effective inputs in industrial policy processes.

There also needs to be an ongoing dialogue within the golden triangle of the state, business and organised labour, and co-responsibility over issues of economic growth and equity. It is unlikely, though, that on the basis of this alone there could be significant growth in the economy and social equity programmes effected. However, for the purpose of stabilising industrial relations and encouraging ongoing dialogue between social forces (labour, capital, state) “social dialogue” can prove viable.

Hirschshohn *et al.* (1997:32) argue that “through participation in tripartite structures like the Motor Industry Development Council (MIDC) unions have an ongoing role to play in monitoring policy implementation and its impact”. According to the ISP, the term “Intelligent Production System” refers to a three-fold requirement:

- ◆ Intelligence: skills, knowledge and informed decision-making capacities;
- ◆ Production: which is efficient and flexible. This includes team-oriented work organisation, flexibility, job design and broad-banding of grades; and



- ♦ Strategy: highlights the need for management and labour to jointly plan, implement and monitor the new production techniques and the associated requirements necessary to move toward more demanding, quality product markets (Joffe *et al.* 1995:205).

The ISP report place a greater premium on enhanced skills and higher levels of training for management on such issues as new production techniques, work organisation, performance measurement and worker involvement. The strategy to ensure this will, according to the ISP report, come through human resource development policies, industrial restructuring, an active labour market and labour legislation (Joffe *et al.* 1995:229). In South Africa the government's intervention on the labour relations front has been so far progressive in terms of changing the face of industrial relations from adversarial to co-operative, as well as with regard to a legislative framework that provides for education and training in the workplace.

The ISP proposal on constant skill acquisition suggests a number of mechanisms. including: reducing the large number of grades; re-defining grades on the basis of skill; structuring the grades to enable career progression (through the establishment of benchmarks linked to agreed national streams and qualifications as outlined by the National Qualifications Framework of the National Training Strategy Initiative); introducing assessment methods to recognise prior learning and experience with a view to re-grading and, finally, establishing a wage framework. These policies are believed to have a potential to reduce wage differentials between lower- and higher-skilled workers, eliminate narrow job categories defined by task-specific grades, thus allowing for flexibility and giving workers an incentive to commit themselves to work re-organisation and productivity enhancing strategies" (Joffe *et al.* 1995:232).

In cases where the employer needs to introduce any change to technology in the auto sector, the union must be given 90 days notice, and if work organisation is to be re-organised 30 days notice should be given. This is to be followed by consultation between the union and the employer on training so that workers can be able to utilise the new technology (NUMSA online news)

### **4.3. Transition from Fordism to post-Fordism in the South African auto industry**

Features of Fordist production in South African manufacturing manifested themselves in the post-war period and these were deeply entrenched in the early 1960s and 1970s. Fordism during this period strongly underlay industrial development in the auto industry. The auto industry epitomised Fordist production principles with strong Taylorist, features marked by a detailed division of labour and hierarchical management. The process laid out by Phase VI of the local content programme and the MIDP made a decisive shift from this paradigm of industrial development. To be more effective, this was to be reinforced by a set of labour market interventions.

Kraak, in analysing labour processes in South African manufacturing, uses a hybrid typology developed by Hirst and Zeitlin (1991). He argues that “there is no certainty about the precise form of industrial change other than to stress its contingent nature, and the likelihood of it taking on a hybrid character of old and new constituent parts” (Kraak 1996:43). According to Hirst and Zeitlin (1991:6, 26) “...hybrid forms of productive organizations are the rule rather than the exception... The resulting interpenetration of elements of flexible and mass production also means that firms often find it easier to shift strategies from one pole to another than an abstract consideration of the two models might lead one to expect ....[The] simple ideal type is just a part in a more complex and multi-layered process of theorisation. This process emphasises the importance of social context, the complexity of co-existing strategies and structures of manufacturing, the contingent nature of their conditions of existence and the variety of possible outcomes” (Hirst and Zeitlin 1991:6, 26).

This seems to be closer to what is taking place in the auto industry as described by NAACAM's executive director, Clive Williams, namely that the auto industry manifests a mixture of different models at the present moment (Williams 1999 personal interview).

What will become increasingly evident in the not so distant future is the gradual fading away of the racial character of Fordism. This will be made possible through the legislative framework of, for example, the Employment Equity Act and the Skills



Development Act. The auto industry is likely to be the first to set the scene in the direction of new forms of work as workplace restructuring and training and skilling initiatives occur at a higher pace compared with other industries. Kraak argues that the emergence of new industrial strategies in South Africa are part of an all-pervasive hybrid of existing labour process types whose constituent parts are never entirely displaced by a new labour process trend (Kraak 1996:44). This hybrid consist of neo-Fordist methods of production, the emergence of post-Fordist methods and the consolidation of past and largely untransformed labour process .

Concurring with Kraak's central argument, it cannot be stated in definite and cogent terms that there is any particular trend that is dominant, but there is indeed a gradual progression in the development of forms of production in South African industry. In policy debates post-Fordist thinking is dominant, but reality on the shopfloor is somewhat different. There is still, however, a lack of full integration of computer-aided design (CAD) methods, computer numerically controlled (CNC) machine tools with computerised administrative planning so as to create a truly systematic reorganisation of production (Kraak 1996:45)

"In the Japanese context where quality circles first emerged, there is a direct correlation between quality circles, higher productivity and rewards to labour such as job security, continuous skill formation and higher pay" (Kraak 1996:49). The new methods of work are tied to incentives that would help maximise workers' productivity as well as motivating acceptance of new work methods by workers.

In South Africa, for example, VW can be said to epitomise the quality circles approach. Volkswagen's Human Resource Director, Smith, describes this approach in the following terms: "At the centre of our vision is the concept of a VW family. It may sound paternalistic, but I think it is a powerful uniting force if used properly...it appears to have support among individual workers, particularly the concept of: 'I come here, this place is my home, people help me here when I have a problem'. Together with the pluralist philosophy, we are trying to build up a set of values of this kind in the company" (Smith, Human Resource Director, SA Volkswagen, quoted by Kraak 1996:50).

#### **4.4. Conclusion**

This chapter set out to examine global trends and changes that have occurred in the auto industry. The increase in consolidation with regard to mergers and acquisitions in the auto industry, and the growing international production networks between parent companies and subsidiaries strongly reflect a “globalising” tendency. The growing and solidifying nexus between parent firms and subsidiaries does impact on national-level processes with regard to production and work methods. Parent firms are responsible for “global strategy” and subsidiaries are linked to the global strategy by the role assigned to them by the “parent firms” – they are increasingly depending on parent firms for the type of manufacturing role, e.g. export orders, that they are to engage in.

This chapter also looked at the long, concentrated period of import-substitution industrialisation with its high level of state intervention that the auto industry went through. This established the development of the industry on firm ground, but it also distorted it somewhat as growth became seriously stunted. Fordist production methods were at the core of the production process and it is quite evident that they defined the entire production process. The auto industry is painfully changing its work methods as well as the racially defined skills hierarchy to reflect exigencies emanating from global industrial restructuring. The need to develop the productive capacity of the economy for global competitiveness makes rationalisation and restructuring essential in the industry. The transformation of the world of work is taking place unevenly and still reflects elements of production that mirror the old Fordist mould. The active labour market policies in the form of the Employment Equity bill and the Skills Development bill are both an attempt to deal with the racial hierarchy of skills and skill shortages in the manufacturing sector. The auto industry is likely to benefit, in particular from the Skills Development bill, as its workforce in the assembly end of production is largely semi-skilled. At Volkswagen management has always attempted to foster the “pluralist” philosophy of co-operation, team-work and quality circles. There is no literature so far that proves convincingly that the application of the new production methods is effective. There is still a lack of adoption of lean production



methods and JIT by both managers and employees in the workplace. Neither is adequately equipped to apply these effectively.

In South Africa the transformation of work seeks to move away from the racial character of capitalist development to an industrial developmental path that would create a balance between economic growth in the form of value-adding mechanisms, restructuring of the work place to ensure more output and maximisation of output, and a human resource development and labour-friendly legislative process. The South African economy is still in transition, though its development is in line with trends elsewhere. South Africa's economy cannot be characterised as Fordist or post-Fordist yet. Kraak employs the term "neo-Fordism", which is useful in a number of ways in characterising South Africa's industrial development. He asserts that the concept of 'neo-Fordism' reflects a partial movement away from racial-Fordist regulatory practices. It was primarily with the intensification of the Fordist labour process and the weakening of the organised trade union movement through the introduction of more exploitative forms of work organization using the new technologies that South Africa's manufacturing base was developed (Kraak 1996:42). Clive Williams, NAACAM's executive director, observes that "In South Africa there is a mix between a First World model of high mechanisation and some old work methods. On the input side we are capital intensive; on the manufacturing side, labour intensive; and on the output side, capital intensive. This gives flexibility to make small volumes. However, there are cost disadvantages for South Africa in competing internationally. On the other hand we have the advantage of 'niche-marketing' against the First World through production of smaller volumes. This gives us more competitive advantage" (Clive Williams 1999, a personal interview).

The next chapter will look at VW as a case study, testing the impact of global industrial restructuring on the production process and work methods at VW plant.

## **Chapter 5. Case-study: Volkswagen South Africa and the restructuring imperatives**

### **5.1. Introduction**

The previous chapter looked broadly at the global developments in the auto industry as well as challenges facing the South African auto industry. What is made clear is that the development of the domestic industry is indissolubly linked to global trends in industrial restructuring. We have observed how, for example, global production networks affect subsidiary firms in global production and business. The location of VW (SA) is tied to the parent firm's global strategy, and this will be elaborated on in this chapter. The wave of change taking place in the sphere of global production influences plant-level processes with regard to workplace restructuring, new work methods, new technology and rationalisation generally. This chapter on VW's restructuring will not dwell much on the general aspects of restructuring as these are sufficiently addressed in the previous chapter. What also need to be stressed is that the trend in workplace restructuring at VW does not take a different form from what is happening in the auto industry generally in South Africa. This chapter will therefore place more emphasis on those aspects that are unique to VW's restructuring.

There are a number of developments that have been occurring in the industry since the global scene began to explode with waves of change in the sphere of production. These changes have signified what has been generally known as globalisation. The notion of globalisation both at the conceptual level and in the area of production has been dealt extensively with in the first three chapters. This chapter will attempt to examine the domestic sphere and the position of the auto industry in the light of these changes, looking in particular at the effects of the global changes on the domestic (national) plane. In trying to understand the processes that are taking place domestically with regard to industrial and labour market restructuring, it is always useful to locate these within the context of transformations in the world economy. These, as argued above, have had a remarkable impact on the domestic front and they serve to explain the changes that are taking place on this front. The changes that are currently taking place in the South African industry in general, and in the auto



industry in particular, follow the logic of the world-wide diffusion of capitalist relations of production.

Some of the more concrete areas that this chapter will also look at include: the pattern followed in workplace restructuring in the auto industry; the organisation of work, more especially with regard to the application of Japanese (“lean production”) methods; and changes relating to training and skilling. It is concluded that the changes that have, and are, taking place in the South African industry do not amount to significant and qualitative shifts in the organisation of production and work processes. Volkswagen South Africa, even though it has embraced the realities of globalisation in some aspects, has not made significant leaps from the old forms of production known as Fordism or neo-Fordism to post-Fordism. South Africa’s industries are caught in a web of serious macro-economic difficulties. These include structural problems in the economy, poor industrial infrastructure, lack of indigenous technology, and relatively less skilled human resources both at a management and labour level. The area that has shown signs of progression is the export capacity of the industry and this reflects positively on the Motor Industry Development Programme (MIDP). According to the Department of Trade and Industry (DTI) report, the strong growth in vehicle export volumes led to a small increase in employment in the second quarter of 1999 (DTI 1999:18). Upward shift in employment will be sustained through continuous increase in export performance, productivity and innovation in the industry. At the moment South Africa still lags behind newly industrialising countries in terms of industrial productivity and competitiveness.

There are, however, labour market interventions and processes that aim at spurring industrial growth in South Africa. In the mid-1990s there were a number of processes launched to package some kind of industrial and labour market restructuring framework. The work of Anthony Black (1994) on the Industrial Strategy for the auto industry, the Industrial Strategy Project to look at industrial restructuring (1995), the commissioned work by the International Labour Organisation on the restructuring of South African labour market, and the report of the Presidential Commission on Labour Market restructuring represent some of the useful work and they provide a sound platform for the restructuring of South Africa’s ailing industry. One of the more recent and fresh debates has been on the Skills and Development bill (1998) which

seeks to make labour market interventions in the area of skills and training and eradicate the racialised skills hierarchy in South Africa.

The work cited above will be used in this chapter as a basis for understanding industrial and labour market changes in South Africa. They touch the very heart of the auto industry. Before examining plant-level restructuring patterns, it is important to look at the background of VW and its global business.

## **5.2. VW's global activities**

Volkswagen is a wholly owned German subsidiary. It was established in the 1920s and its purpose, as its name “people’s car” implies, was to create a robust German automobile for the average family. The original people’s car, the famous ‘Beetle’ was conceived by Ferdinand Porsche and the company enjoyed dramatic success after the Second World War (Mintzberg *et al.* 1998:634). According to Campbell and Alexander, that purpose set a clear challenge for strategy development, which by 1972 had made the Beetle the most popular automobile in the world (Campbell and Alexander 1997:50). There has been a renewed commitment very recently to bringing back VW’s former glory by “resuscitating” the Beetle.

A horrible picture taints Volkswagen’s history. It is claimed that during World War Two many workers were forced into slave labour under the Third Reich in its factories in Germany. It is estimated that about 15 000 workers were involved, drawn mainly from Russia, Poland and the Netherlands, and a large portion of them were of Jewish origin (Andrews, *New York Times*, 8 July 1998). The factories, which were located in Wolfsburg, were also said to have been involved in the production of rockets, military vehicles and other wartime hardware.

At the present moment VW enjoys the distinction of being the number one car-maker in Europe and the fourth largest in the world. The compact Golf is the best-selling car in Europe, where VW commands a 17% market share. VW ranks as the second largest company in Germany; only Daimler-Benz is bigger (now Daimler-Chrysler). It is also said that outside Europe VW has also achieved considerable success. In Mexico the company share of the passenger car market is 40%. In China it is the number one



Western auto manufacturer and commands 55% of the market (Keegan and Green 1997:393). However, it is competing with Daimler-Chrysler in this market (*Fortune Magazine* 1998). Together with its Chinese partners, the VW group has become the undisputed leader in the auto industry in China with a car market share of 55%. In the early 1990s South Africa played an export platform role by exporting left-hand Jettas to the Chinese market. There are greater opportunities in China as the economy is increasingly becoming liberalised. This will also introduce challenges of its own, because with greater openness in the economy, competition is likely to take a greater toll. With the creation of a single market in Europe, competition between various auto companies is also heating up.<sup>1</sup>

The company's R&D division is located in Germany. Highly automated plants in Germany would provide components such as transmission, engines and axles to assembly operations in other parts of the world. This is in line with major trends in the new division of labour, where higher-end production activities are retained in the developed or home-countries of the parent company and low-end, mainly labour-intensive activities in the production value chain are located in developing countries.

Ferdinand Piech succeeded Carl Hahn in 1993 as the new VW Chairman. One of Piech's goals was to trim VW's world-wide employment of about 274 000, starting with 20 000 jobs in 1993.

### **5.3. VW's global business**

VW leverages benefits of market share in more than one country. As mentioned before, it locates its activities (in the value chain) in various countries; thus the company is able to exploit low-cost production in the lower end of its value chain and derive economies of scale. At the top end of its value chain (R&D and product design) the company ensures high-quality products and it commits itself to transferring its experience world-wide. VW exemplifies a true global organisation as it has a

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<sup>1</sup> The significance of this is that the competition is likely to affect VW's market share. On the other hand, it would make a compelling challenge for high-quality production and downward variation of prices - which will most likely benefit consumers.

significant presence in many countries - that is, in the triad and beyond. The triad is said to represent about 75% of global consumers. This also represents markets for global consumers as well as global competitors. VW has, unlike other companies, not only concentrated on the triad but also looked at markets in Africa and Latin America. Its market presence is broad. VW participates strongly in markets where there are large sources of revenue, home markets for global customers (e.g. U.S and Europe), home market of global competitors, and where there are major sources of industry innovation.

The company has subsidiaries in more than 8 countries, including South Africa. The company has long been the industry leader in the Western part of Germany, where it currently holds more than 28% of the automotive market share. It also maintains plants in a number of locations: Brazil, US, Mexico, South Africa, Nigeria, Yugoslavia, Argentine and Belgium. A global location of activities has to do with where to locate business activities and how to co-ordinate them; this constitutes a critical choice in global strategy. VW exemplifies an increasingly globalising company. It has more than 18% market share in South Africa. The company has also bought a 70% controlling stake in Skoda, a Czech car manufacturer for about \$900 million (Andrew, *New York Times*, 19 May 1998). The pressures of global competition compel companies to produce more models to appeal to different market niches.

According to Yip (1995) a business pursuing a global activity strategy might locate research in the UK, development in Germany, raw material processing in Mexico, sub-assembly in the US and final assembly in Ireland (Yip, 1995:94). With VW, its R&D is located in Germany and most of its manufacturing or assembly plants located in low-cost developing countries. VW seems to be using a combination of strong export platforms – mainly located in developing countries, e.g. Mexico (Beetle, Audi, Jetta), Brazil and South Africa (Golf VI and Audi) – and a pure global strategy. VW uses all value activities as located in different countries, from R&D and design (mainly in German), marketing, production and after-sale service. According to Yip (1995), some of the benefits of global location of activities include:

- Cost reduction;



- Improved quality - for example, concentration of R&D yields benefits;
- Enhanced customer preference - possible improvement in product design and quality;
- Increased competitive lever - a global approach can provide more leverage against competitors.

Cost is the most significant global driver that affects the location of R&D activities. It is costly for these activities to be transferred or duplicated across various countries. The best thing for businesses to do is to always retain this division where there is an abundant source of intellectual and technological resources or innovation. This is usually the home-country or highly developed countries e.g. Japan, Europe and North America.

The passenger automotive industry provides an excellent example of the wide range of globalisation standardisation, both between companies and between model lines within a company. According to Yip (1995), automotive companies hardly ever design different platforms for different countries, but may use different bodies on standardised platforms.

VW is a global organisation that has not only embraced the realities of globalisation, but seeks to derive benefits from it. The company remains one of the leading global companies with global brands. It uses various market entry strategies. This includes strategic alliances, joint ventures and exports. The organisation exists in various countries – both lead countries (in Europe and North America) and tactical countries (Brazil, China, Mexico and South Africa). The company exhibits a great deal of standardisation and generates more than US\$2.7 billion in revenue world-wide.

According to the 1998 World Investment Report published by UNCTAD, Volkswagen is ranked as the eighth top transnational corporation in the ranking of The World's top 100 TNCs ranked by foreign assets in 1996. The company has total assets of 60.8 billion dollars, total sales of 64.4 billion dollars, and employs a total of 260 811 employees (UNCTAD 1998:36).

According to the Economist Intelligence Unit, the Volkswagen Group is the largest producer with 17% of the output in 1997 and is forecast to remain the segment leader (Economist Intelligence Unit 1998).

#### **5.4. A brief history of the South African subsidiary (VW)**

The South African subsidiary was established in 1948 as part of a general initiative to develop a post-war motor industry in the format of Fordism (Maller 1992:91). The company is located in Uitenhage in the Eastern Cape province. Mass production and detailed mechanisation have always been part of the production process in the company. When the company was formed, it was first called the South African Motor Assemblers and Distributors (Volkswagen website). Rapid industrialisation in the industry surged with the registration of the local content programme in 1960. Volkswagen South Africa's (VWSA) market share is said to have doubled since the 1980s. The VW group has more than 260 000 employees world-wide that produce an average of 3,3 million vehicles a year (Volkswagen website). Other vehicle assembly plants in South Africa include BMW, Delta, Nissan, and Toyota, SAMCOR, and Ford.

VWSA started as a foreign-owned business entity producing for local consumption. This was in part due to South Africa's isolation from the international community. The first three-year export order of Jettas for China started rolling out in VW's assembly in 1994. According to VW's report, this contract was worth R750 million in foreign earnings. Total passenger car exports from South Africa in 1998 across all manufacturers were valued at R1,1billion. VWSA is said to be currently exporting 5000 generation three Golf Gti vehicles to Britain – a deal worth R400 million. The report goes further to suggest that VWSA will export 500 Audi A4 vehicles to Australia this year (VW online report). What is evident from this picture and the emerging trend is that this VW subsidiary is fulfilling a role in the global strategy of VW as a major export outlet. The export order is worth 25 billion rands in total.



### **5.5. Volkswagen restructuring**

VW's restructuring seems to be based on building a strong export platform as part of the global production network of the parent company (VWAG). The importance of increasing productivity and ensuring restructuring in the firm is tied to the demands of global competition and for the industry this will mean projecting itself as a viable candidate to acquire major export deals. According to Clive Williams, NAACAAM Executive Director, "If we want to compete in the global production, we have to adopt first world methods of doing things and adapt them to our local conditions... At the end of the day we have to compare ourselves with the best in the world" (Williams 1997, personal interview).

Volkswagen's growth as a world class manufacturing plant and destination for export deals will depend on various factors. One of these will be the stability and predictability of industrial relations. An environment characterised by many disruptions in production caused by strikes and spontaneous industrial disputes is unlikely to be attractive for new investments. There is greater pressure for co-operation in the auto sector to meet the demands of international competitiveness and position the firm as a world-class manufacturer. This will equally place pressure on management to make concessions to the union, if VW is to be a viable world-class manufacturer able to attract new investments and export high volumes of quality vehicles to foreign markets.

In 1991 NUMSA managed to use its political muscle to achieve a bargaining agreement whose main goals were to ensure the long-term growth and viability of the industry, the protection of employment, the improvement of quality, and the negotiation of work reorganisation to ensure international and local competitiveness (Bethlehem and Von Holdt, 1991). According to Hirschsohn *et al.* (1997) NUMSA took the initiative while management's attention was focused elsewhere. The union provided the vision and framework for the assembly sector's human resources development strategy. They point out that NUMSA recognised that the industry had become world class and "capable of meeting the changing demands of the domestic market while maintaining a high export profile in order to provide employment

growth. Performance bench-marks, based on issues such as growth, skill formulation and quality measures, should be put in place in order to determine the rate of reduction in tariff protection. Incentives should be available in order to assist companies and regions to restructure and adjust to changing patterns of locations and employment” (Hirschshohn *et al.* 1997:12). The performance and growth of the industry are also of interest for the union as they are likely to ensure the sustainability of current employment.

According to Hirschshohn *et al.* (1997:13), the National Bargaining Forum (NBF) agreements provide for competency-based training by individual firms that will be recognised across the industry and provide workers with a “career path from general to specialised skills. Training is linked to the broad-banding of grades and aims to lay the basis for career-long learning so that workers can acquire workplace skills and keep pace with technological change”.

It is said that Volkswagen management was unprepared for the major cultural shift required to move from a low-wage strategy towards a system founded on equity and a skilled workforce (Hirschshohn *et al.* 1997:13).

One of the areas which is likely to be a ground of contestation is that of pressure to increase productivity, on the one hand, and a need to empower workers both in terms of new skills and enlarged scope for decision-making, on the other. Though it seems employers are willing to engage in processes that guarantee productivity and increases in the rate of profit over the long term – for example, investing in skills formation – they do not seem so keen on broadening the scope for effective and meaningful worker participation on production-related issues except where these will merely provide a rubber-stamp for management’s position.

The new training framework was developed by the Automobile Manufacturing Industry Education and Training Board (AMIET) jointly co-ordinated by NUMSA and management. This framework was developed following a visit by Australian unionists and employers to run extensive workshops on their auto industry’s competence-based training system that has been developed since the 1980s (Hirschshohn *et al.* 1997:16). The existence of a jointly-developed industry training



framework through the National Bargaining Framework is, according to Hirschshohn *et al.* (1997), a critical element of supply-side capacity building and is likely to be buttressed by the newly legislated National Skills and Training framework. It will, however, take time for these initiatives to fully mature in the South African industrial relations system, which is still deeply immersed in tensions between the labour movement and management. They will need strong co-operation between these two players and this can be sustained by a well-grounded corporatist framework in the short and medium term. A corporatist framework in the industry should be characterised by:

- greater co-operation between organised business and labour on matters of policy, which should influence their constituencies;
- striving to reach a consensual agreement with the state on an appropriate policy framework and implementation process.

Hirschshohn *et al.* (1997:12) further mention that NUMSA adopted key elements of the lean production framework, coupled with progressive ideas based on development in the Australian metal and the German auto industry. There have been experiments with lean production methods across the auto industry, including Volkswagen. This is confirmed by Clive Williams (1997, personal interview), who states that there is a great emphasis on lean production in auto firms in South Africa.

## **5.6. Co-determination practices in the auto industry**

Hirschshohn *et al.* (1997:25) propose that the state, business associations and labour must formulate an industrial strategy which complements firm strategies and should be responsive to changing patterns of global competition and ensure the long-term viability of the industry.

Since the beginning of the 1990s Volkswagen has attempted to create some kind of an arrangement that seeks to build strong co-operation between its trade union and management. Strong pluralist values and the need to ensure co-determination on the shopfloor underlie this arrangement. Co-determination can be defined as a system where both workers and employers are co-determinants of the structure, organisation and activities in the workplace. According to Streeck “co-determination is a system of

regularised influence by the workforce on a routine basis" (1994:89). Workplace forums as proposed in the Labour Relations Act (1995) are institutional forms of co-determination. In Germany co-determination policies are expressed in a real sense in the form of works councils.

The idea of co-determination originates from Germany. Worker participation in the German system is institutionalised in the form of workers councils. Workers demanded full participation in decision-making processes on all issues or areas relating to the work place (Maree, 1993). In practice this means representation on supervisory and management boards, and having a full impact on the decisions taken at these structures. This allows workers to express themselves and to feel part of the economic processes in the work place. Participation is on the basis of parity so that workers representatives are not "transmission" belts of the decisions arrived at by management. Work councils in Germany are legislated. Employers have to consult and inform the works council about major business plans. According to Maree, "Work Councils give workers meaningful say at their place of work, and they also help to produce a sustainable, efficient economy" (Maree, 1993:250). However, co-determination practices in South Africa are still marred by rigidity of management and are expressed in an environment still shaped by serious tensions between labour and management. The trust levels between these forces are quite low and the likelihood of firmly established common ground is not likely in the short and medium term. This situation is aggravated by the threat of globalisation, which is increasingly becoming the worst fear of the workers. Volkswagen (SA) has relatively stable industrial relations, which are characterised by greater worker participation and involvement in decisions about production processes and new technology. The agreement on the production of the Golf IV in Uitenhage plant for export to European market was also discussed by management and NUMSA, and an agreement on targets, working hours and production cycles was then jointly agreed upon.

VW's pluralist approach is summed up by the Human Resource director as follows: "At the centre of our vision is the concept of a VW family. It may sound paternalistic, but I think it is a powerful uniting force if used properly...it appears to have support among individual workers, particularly the concept of: 'I come here, this place is my home, people help me here when I have a problem'. Together with the pluralist



philosophy, we are trying to build up a set of values of this kind in company” (Smith, Human Resource Director, SA Volkswagen, quoted by Kraak 1996:50).

### **5.7. Workplace restructuring and auto bargaining agreement**

In the auto sector the 3-year bargaining agreement of 1995 was signed in the National Bargaining Forum. This agreement formally linked wages, grading, training and work organisation. The ISP identified the following benefits emanating from the agreement: “the employers won a commitment to greater flexibility and cooperation at enterprise level for restructuring in line with ‘world-class manufacturing’ while, in exchange, the union got an undertaking from the employers to train workers in line with the new qualification framework, and to pay for the skills they acquired. NUMSA members agreed that once they had acquired additional skills they would use these flexibly and would not defend old job classifications” (Joffe *et al.* 1995:231). These concessions for NUMSA are closer to the demands they have always been making with regard to issues relating to restructuring. NUMSA’s view on restructuring in the workplace is that the process should seek to empower workers through higher skills, job security, creation of new job opportunities, and technological innovations to meet workers’ needs. This kind of give and take is healthy for the industry as it ensures development towards world-class manufacturing and competitiveness, while also providing for job security, skilling and wage increases tied to productivity increases. The following table represents the wage agreement in effect in the auto sector from July 1997 to June 30 1998 and is subject to review.

#### **New Wage Agreements (Auto sector: July 1997 to June 30 1998)**

**Table 3**

<b><u>Skill level</u></b>	<b><u>Min/hr</u></b>	<b><u>Max/hr</u></b>
1	13,28	14,61
2	14,62	16,08
3	16,07	17,68
4	17,68	19,45
5*	19,45	25,29
6*	23,34	30,35

7*	28,01	36,41
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The minimum rates for skill levels 1 to 4 will be increased by 11,5% (Source: NUMSA online news).

\*subject to outcome of the research of the Artisan Wage Study Group

### **5.8. Conclusion**

The auto industry took a major turn in the late 1980s to embrace a much more open and flexible approach in its production. The industry started out with an inward-oriented industrialisation strategy akin to the model used by Latin American countries. The industry was marked by inefficiencies, economic distortions and uncompetitiveness.

According to Black (1999:3) Phase VI of the local content programme, introduced in 1989, “marked a substantial change of direction. It was the first attempt to address the problems of an inwardly oriented, overly fragmented industry with low volume output and associated high unit costs. Local content was to be measured by value rather than mass”. He further notes that exports of components grew rapidly, with firms citing the increased availability of incentives and the desire to increase the scale of production and improve product quality as the major factors motivating exports (Black 1999:3). The establishment of the MIDP in September 1995 was a major “face-lift” for the industry; it sought to eliminate inefficiency in the industry, ensure competitiveness, and integrate the industry into the world economy.

The initiatives towards restructuring and rationalising workplaces are guided by what is happening on the global plane. The exigencies of global economic restructuring play themselves out in national markets and tie these to the production demand of the transnational firms which have a significant dominance in the world economy. These are normally parent companies of subsidiaries located in developing countries as is the case with Volkswagen South Africa. The words of the Volkswagen South Africa Human Resource Executive Director provide a useful insight into the position of VW in relation to the global scene: “Suddenly when the whole situation changed, everyone



started saying we have got this plant down in South Africa, they have been bumbling along on their own, how do we integrate them into the group? ... We had a new set of top management who become much more productivity oriented, and would clearly say there is no such a thing any more as a national market, there is just one global market. It happens to have a surplus production capacity of 10 million cars... So suddenly we had this massive focus on our productivity, our integration in the world, we had guys coming and going and saying, look you guys are over-structured, you are not productive, a German car plant producing the same number of cars as you has 2000 people, you have got 7000. What the hell are you doing? (HR Director, UNISA 15/12/1995 quoted by Webster and Mucun 1997:11)

It is important to note that the new work practices currently applied in the South African industry do not, as such, seek to break completely from old Taylorist and Fordist methods, let alone alter social relations between labour and capital. It is also noted in the ISP report that the more the intensity of labour is increased, the more supervisory or guard-labour is required, and the more resistance will result and this may result in short-circuiting of productivity gains (Joffe *et al.* 1995:196). The lean production framework has come to be embraced uncritically and applied incorrectly by South African management who, in most instances, are still trapped in the past mould. There is a lack of adequate preparation of both management and employees on the new production methods, and this is a critical challenge if the South African auto industry wants to position itself as a world-class industry ready to face the challenges of international competition.

The trade union movement will need to facilitate on-going shopsteward education on a sector basis around work organisation, grading systems, skills and training and manufacturing performance (Joffe *et al.* 1995:229). The position of labour in relation to these global challenges may not look bleak in the short term, but the long-term consequences of globalisation are likely to disorientate workers and the union. With the intensity of rationalisation and international competitiveness, it is inevitable that retrenchments, rationalisation of certain work processes and a shift to non-regular forms of work (e.g. sub-contracting and temporary labour) will follow. Globalisation poses serious threats for the trade union and the way it responds to these challenges will determine its viability in the face of the decline in employment in the more

traditional and core areas of work and the increase of non-regular forms of work. At Volkswagen this may take some time to happen, depending on productivity and long-term viability of the plant as a major export platform as well as the economic outlook of global markets. Volkswagen is currently producing more than 40 000 Golfs VI a year for export to Europe and plans to inject about R1 bn into its South African subsidiary in the next five years.

VW has embraced not only the realities of globalisation, but also and most importantly the need for co-determination on production-related issues. The company places importance on worker involvement and participation in decision-making, or what is called joint decision making. One example is the export order assigned to the VW SA subsidiary. Prior to rolling out the export orders there was an agreement between NUMSA and VW management. In terms of this the union committed itself to a production schedule for export units in exchange for training, skills upgrading and wage increases. This major export order also led to the creation of more than 850 jobs at the plant.



## **Chapter 6. Conclusion**

### **6.1. Social development and transformation in the world economy**

In South Africa social development is situated within a set of policies embedded in a market-driven framework. This framework mirrors the transformations that are currently shaping the world economy and deploy the state in the service of powerful social forces in the world economy. The role assigned to the state is that of managing the domestic sphere to reflect the needs of the world economy – so much so that the distinction between the state and the world economy becomes increasingly blurred. One of the changes that signify globalisation is the change that has shaped the sphere of production. The period 1980 to the beginning of 1990s saw the disappearance from many Western European countries of different variants of social democratic arrangements, as well as the withering away of the Communist bloc in the eastern part of Europe.

These changes took place simultaneously with the intensification of global industrial restructuring and shifts away from a Fordist-type of production, which had for a very long time underpinned the ‘Keynesian’ economic model that was prevalent in the post-war period, to a new form of production model known as post-Fordism. This model is one of the central characteristic features of a globalising economy and its location is in the sphere of production. This production regulatory mechanism is buttressed by a neo-liberal paradigm, which place a premium on the minimal role of the state in the economic sphere and maximisation of the space for unfettered free-market forces in the domestic economy. In terms of this thinking the logic of national production is to serve the needs of an increasingly “globalising” economy. The trend towards post-Fordist production, though not taking place uniformly, is in the main characterised by increasing linkages of global production networks, more especially between subsidiaries and parent firms which are transnational corporations.

Literature pointing to a reconfiguration of the global space of production, termed by some Marxist critics as a new international division of labour, flourished during this period. This literature clearly pointed to an increasing convergence of production

networks in a manner that creates a division of labour on an international scale. This happens in a space where a handful of transnational firms control global production, with their subsidiaries located mainly in developing countries. This division occurs mainly between labour located in the advanced centres of capitalism and that in the developing countries. The more skilled labour force and the processes involving research and development, and the technological intensive processes are retained in the core countries, while those factors that are more labour-intensive and have to do more with manufacturing are assigned to developing or peripheral countries.

This division of labour becomes increasingly evident within firms, because in terms of the post-Fordist imperatives there is greater emphasis on skilled labour and the employment of technology in production. Vally argues that “flexible production leads to new forms of labour market segmentation with a smaller core of relatively highly paid and skilled ‘permanent’ workers” (Vally 1997:32). It must be noted that the manner in which countries are shaped by global trends is not even or uniform, but there is convergence in terms of the nature and substance of these changes. Concepts such as flexible production, flexible labour, flexible time, quality circles and just-in-time production give an indication of the dynamics in the sphere of production. These concepts are commonplace in the auto industry, and they are often used in relation to restructuring and rationalisation.

One area that globalisation has had an effect on, according to Black (2000, personal interview) is the intensification of global competition which, he said, has dropped a “bomb” on the domestic sphere to spark internal competitiveness. He views globalisation in positive terms and sees markets in the region as likely to experience rapid growth. In the era of rationalisation and increasing competitiveness in the industry, uncompetitive firms are likely to be cut off from the market. He concedes, however, that employment is at risk, and that in the long-term it may fall significantly (Black 2000, personal interview). At the moment the auto industry is not severely affected by global pressures. There are still import duties in place, though they are being gradually phased out according to the MIDP plan. This, according to Black, shows that South Africa is not a free market economy yet, but in future things may change.



## **6.2. Flexibility at plant level**

At the plant level, flexible production generates a tendency towards the creation of non-regular forms of work, for example, part-timers, contract and casual workers. At the present moment in the auto industry this tendency is not so evident, but it surely is building up as the intensity of international competition gathers momentum. The relative stability in the internal labour market can be attributed to the fact that there has to a great extent been co-operation between the union and management. The VW firm in Uitenhage adopts the philosophy of its parent firm VW AG with regard to industrial relations. It places the emphasis on co-determination, which essentially affirms worker participation, joint-management and co-responsibility in decision-making. It seeks to create stable industrial relations conducive to increased productivity. NUMSA plays an important role in the firm and proactively engages with complex questions relating to industrial restructuring in the company. The participation and involvement of NUMSA is important in many ways. Firstly, for a healthy industrial relations system it is important to have a strong union that is able to bargain effectively beyond wage demands and conditions of employment but also – and importantly – on production-related issues. Secondly, a strong union that participates and involves itself on firm-specific issues – be it restructuring or wage bargaining – can position itself strategically to press for concessions and defend the rights of its members. NUMSA has by and large demonstrated this capacity, though this seemingly widens the gap between union leadership and the general membership and may likely lead to co-optation of leadership to acquiesce to decisions that are not necessarily acceptable to the membership.

The NUMSA bargaining conference in March 1998 took a resolution to set up industrial restructuring teams to look at the implications of industrial restructuring as a whole and how NUMSA's sectors can defend jobs and promote job creation. With regard to independent contractors, it was resolved at this conference that six months' notice be given and should be on the basis of an agreement with the union.

With the gathering wave of integration into the world economy, the interests of labour seem to be under threat. Christopher Kopler, chairman of Mercedes-Benz South

Africa, sees the power of unions eroding with greater globalisation as “they lose the borders of their power” (*Business Day* 26 November 1998). This is mainly due to the likely effects of globalisation on wage structure, employment patterns and union membership. South Africa is increasingly becoming integrated into the world economy through multilateral institutions such as the World Trade Organisation and, internally, through adopting “market-friendly” macro-economic policies. The position of labour is best secured in a corporatist framework in the short and medium term, but in the long term a radically different strategy would be necessary if labour is to survive and play its role most effectively.

### **6.3. Productivity and competitiveness of the industry**

The next five years will see a major growth in the industry, more especially as the regional markets are also showing signs of growth and there are many trade linkages with countries in the developed and newly industrialising world.

For a long time, until the introduction of the Phase IV local content programme, the industry thrived behind strong protective barriers and it followed the import-substitution industrialisation programme. This protection meant that duties for imported cars and components were heavy. One of the challenges of globalisation in the auto industry is the reduction of protection. The world trade regime emphasises tariff reduction in line with the agreed rules of the World Trade Organisation. The second and related challenge has to do with increasing international competition, which is sparked and given greater impetus by the global trade environment which is increasingly gaining momentum. These two challenges bring to bear challenges of their own including rationalisation and restructuring, competitiveness of the industry, and long-term employment patterns in the industry. Phasing down protection is likely to trigger competitiveness among domestic producers as well as raising competitive activity among global competitors with a great surge in imports. According to Black (1999:3), “import expansion can threaten the viability of local producers not only by eroding their domestic market share but also by eliminating their capacity to take advantage of new export opportunities”. Whether or not the nation-state has any space within which to shape these changes to accommodate domestic-specific challenges is something that is always at the centre of debate in the study of political economy.



Black argues that “in spite of these pressures and constraints imposed by the World Trade Organisation (WTO), nation-states still have a significant level of choice with regard to the extent to which they wish to expose the industry to the forces of globalisation” (Black 1999:1).

The current developments within the auto industry set off by the MIDP plan suggest that the auto industry is moving towards specialisation – which essentially means producing fewer models at a higher volume, and this is likely to prove economical and ensure competitiveness. This programme is firmly tying South Africa’s auto industry to international realities characterised by trade liberalisation, rapid technological change and globalisation of production. To date the MIDP has been successful in achieving various key objectives, namely, continued improvement in vehicle affordability in the domestic market, growth in and development of industry exports, an improvement in overall efficiencies and international competitiveness of the South African automotive industry and the first, albeit tentative signs of rationalisation of the number of models produced for the domestic market” (NAAMSA 1998:9).

As shown previously, the MIDP exposes the industry to harsh measures of the market forces through the tariff-reduction programme, which, it is expected, will lead to a significant reduction of tariff protection in the industry by 2002. This exposure is a “guarded” one, but will ultimately place South Africa in the full view and heat of global pressures. All this places more pressure on the industry to improve its export sector and ensure efficiency and quality to be able to face up to international competition. There is already, according to NAAMSA report, an exponential growth of exports of automotive components and vehicles. Volkswagen is also, within the context of these developments, placing an emphasis on efficiency, productivity and quality. With its new export order about 850 jobs have been created; the production cycle takes a full calendar year, which means there is no year-end shutdown in production.

#### **6.4. Employment patterns**

NUMSA's organiser, Leonard Gatle, is quoted saying that "companies are outsourcing their operations, using varying degrees of temporary, contract and casual workers"(Ray 1997:26). Ray further argues that mechanisation and flexibility are simply two interrelated moments in the struggle by companies to become competitive. Capital intensity in the workplace is likely to lead to human skills displacement and reduce the worker to a mere appendage of the machine.

The introduction of new technology occupies a central place in workplace restructuring; it does affect the nature of work and the skills needed. It is part of creating a flexible production system and is a powerful force behind the globalisation process. It can lead to insecure employment such as subcontracting and casualisation as well as retrenchments. According to Bayat, the production of new technology is sure to cause job-shedding on a massive scale in industrialised and industrialising countries. This will certainly have an impact on the unionisation trends as the unemployment trend develops simultaneously with the trend towards creating a more flexible labour market characterised by part-time jobs and contract work. Flexibility of accumulation driven mainly by technology inevitably creates flexible labour in the industry. Technology-driven manufacturing by definition leads to an increase in productivity in the workplace and, if this remains constant, one factor input (labour) is likely to fall. This is more acute in developed countries as job shedding is accounted for by retention of capital-intensive manufacturing and labour-intensive jobs shifted to areas where labour costs are cheaper. Core work processes involving technology and service sectors are still retained in large numbers in the developed parts of the world, while more manufacturing and labour intensive jobs are shifted to the periphery to make use of cheap labour and weaker labour regulations.

The NAAMSA (1998) report admits that industry employment levels remained under pressure during 1998 as vehicle manufacturers, component suppliers, and the servicing and distribution trade continued to rationalise operations and reduce costs in the face of intense competition (NAAMSA 1998:5). *Appendix A* reflects employment trends between 1994 and 1998. It is not very clear, even in the NAAMSA report,



what accounts for the decline in employment between 1996 and 1998. This was a period of intensification both of South Africa's integration into the world economy as well as processes of rationalisation and workplace restructuring.

With regard to employment trends currently, there is no significant decline in employment yet as there are bargaining agreements struck between NUMSA and management over issues of job security, wages, skilling and job grading. This is unlikely to be sustained for a very long time as the pressure for rationalisation and workplace restructuring will see many workers laid off and other processes contracted out to independent contractors. Sustained employment in the industry will also depend on performance and sustained increase in production. According to the DTI report, employment in the component sector increased in line with higher volumes during 1995, but fell slightly in 1996. At the moment the industry still produces low volumes and many models, and this is often cited as one of the obstacles to competitiveness.

As clearly shown in *Appendix A*, between 1994 and 1996 there was exponential growth in the industry's employment level. The period 1996 and 1998 saw a downward slide in employment levels. Employment levels in the automotive industry are cyclical. There is difficulty in pointing, in definite terms, to the main cause of the cyclical motion of employment in the industry. As Black (1994) puts it "disaggregating the effect of trade liberalisation from the impact of market conditions is complicated by the impact on market growth resulting from the reduced price of vehicles in real terms which in turn is partly the result of liberalisation". Liberalisation cannot be wholly blamed for this cyclical motion, but a combination of internal market condition and external pressures account for the general employment pattern in the industry. With boosts in exports and productivity in the industry there is a great prospect for stability and increasing employment. The export sector will have to be strengthened if pressure from imports is to be moderated. The extent of export growth and the destination of exports largely rest on the strategy and decision of the parent company, which is the case with VW's current export order of Golf IV to the European market.

There are no observable trends of decline in employment at VW, except that the new export order has led to the creation of new employment in the plant. One of the fears that has been expressed has to do with the long-term sustainability of employment in the plant. The new employment is tied to the export order and its sustainability is clearly contingent on the sustainability of the export order and increased industrial productivity.

### **6.5. Future policy options and corporatism**

Social partnership, within a ‘corporatist’ framework, that will entail social compromises among the “social partners” – labour, state and capital – seems to be the most likely path to ensure growth and industrial expansion. A corporatist framework guarantees a space for political influence by labour on social and economic policies. The interest of labour stands a better chance in a corporatist framework than in an environment where unilateralism (management prerogative in decision-making) and adversarialism thrive. The corporatist framework does not guarantee that the interests of labour will be fully served as this kind of framework, by definition, entails give and take measures. At least it does provide an opportunity for labour to influence political developments and policy processes at a macro-level as well as at a plant level through co-determination structures like a workplace forum.

Even though there are serious constraints in the labour market at the moment, the transformative possibilities presented by the regulatory framework cannot be underestimated, but it is also true that these constraints are not irreversible. The interactions between state, labour and capital through social partnership can add weight to the realisation of workers' interests, creating an environment for sustainable economic growth. The centrality of labour in this kind of social partnership has the potential to roll back or at least moderate neo-liberal advances. According to Glen Adler, “labour can use its power today to achieve gains that in themselves do not amount to socialism, but will contribute to its creation” (Adler 1998:75).

According to Adler, the term “social partnership” emerged in Germany in 1950s. There it signalled labour's acceptance of working with capital and the state to achieve economic growth and the entrenchment of a democratic republic. He further notes that



partnership is always uneven as it takes place within relations of class domination. In South Africa the interaction between labour, the state and capital can hardly be said to be exhibiting social partnership features. It can be characterised as a social dialogue or corporatism in the making.

The policy options for South Africa, and the industry in particular, should be based on a framework that seeks to boost industrial and economic growth, creation of new jobs, ensuring greater productivity and productivity-linked wage increases. The approach of the MIDP towards phased integration has the potential of giving South Africa, and the auto industry in particular, a breathing space and an opportunity to build its capacity for international competitiveness. This can also serve as a cushion against the harsh effects of globalisation relating to unemployment and wage structures in the short and medium term, but in the longer term the auto industry is unlikely to escape the effects of globalisation.

In terms of the restructuring in the auto industry there has been a great shift from an inward-looking, highly protected and unproductive industry to a more open and innovative industry. The work of the Motor Industry Development Programme (MIDP) has played an important role in this regard and the industry is on a progressive growth path. This growth path in the industry is unlikely to generate social harm, more especially with regard to employment in the short and medium term, as in terms of the MIDP recommendations the industry is undergoing phased liberalisation. MIDP's review gazetted in March 1999 suggested that tariffs would continue to decline after 2002, but at a slower rate, to 30% for lighter vehicles and 25% for components by 2007.

**Appendix A****Employment statistics: South African Motor Vehicle Manufacturing Industry:  
1994 - 1998**

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
January	36 905	37 546	39 121	37 836	35 251
February	36 846	37 532	39 227	37 782	34 738
March	36 862	37 365	39 300	37 580	34 647
April	37 294	38 314	38 38 774	37 524	33 989
May	37 154	38 766	38 681	37 389	33 885
June	37 378	38 637	38 791	37 091	33 619
July	37 347	38 997	38 795	37 412	33 333
August	37 583	39 063	38 759	37 142	33 269
September	37 814	39 059	38 549	36 939	33 246
October	38 024	39 307	38 009	36 457	32 909
November	38 333	39 332	37 717	35 976	32 886
December	38 222	39 152	37 566	35 855	33 129
Monthly average	37 489	38 612	38 607	37 082	33 658

Source: NAAMSA 1998 report



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