

1.6E: Growth and Evolution: Activity



IB Business Management: www.BusinessManagementIB.com

1.6 GROWTH AND EVOLUTION: ACTIVITY E

Read the case study information below and answer the questions that follow.

SOUTH AFRICA ACCELERATES CAR PRODUCTION



South Africa is emerging as a profitable production and export base for some of the world's biggest auto manufacturers, despite the country's remoteness, its reputation for labour militancy and political uncertainties. South Africa has become a key supplier of motor industry components. With massive platinum and palladium deposits, South Africa has emerged from nowhere to take nearly 10% of the world's production of catalytic converters, which is set to increase to 25%. This did not happen by accident. It is the result of a deliberate strategy by the government to draw the world's best car makers into South Africa, and drag the domestic industry from behind protectionist barriers into the highly competitive global market for cars and components.

"When we started, the South African auto industry was in ruins," an economist from the government's Motor Industry Development Programme (MIDP), said. "Domestic production could not even compete with imports, which faced duties in excess of 115%," she adds. MIDP

1.6E: Growth and Evolution: Activity

has kick started South Africa's ailing motor industry by attracting the world's big car makers such as Mercedes Benz, BMW and Renault, with financial incentives including export credits and investment allowances. The new factories have the benefit of generating thousands of new jobs and forcing hundreds of small and medium-sized local suppliers to improve quality and productivity or face extinction. The success of MDP "has been a huge confidence booster for us", the MIDP spokeswoman says. "it has enabled us to bring about productivity improvements, stabilise employment and lift incomes (in quite impoverished regions), reduce the real cost of new motor vehicles and give consumers more choice."

Source: www.BusinessManagementIB.com

28 MARKS, 52 MINUTES

1. Define **multinational company** and outline examples of companies in the case study that meet this definition? **[4 marks]**
2. Using the case study as well as your own knowledge, explain three reasons for the manufacturers setting up factories in South Africa. **[6 marks]**
3. Analyse the benefits South Africa appears to be gaining from such investment. **[8 marks]**
4. Evaluate whether the government of South Africa should continue to support investment by multinational businesses in its economy. **[10 marks]**