The Last Frontier: Prospects and Policies for the Automotive Industry in sub-Saharan Africa

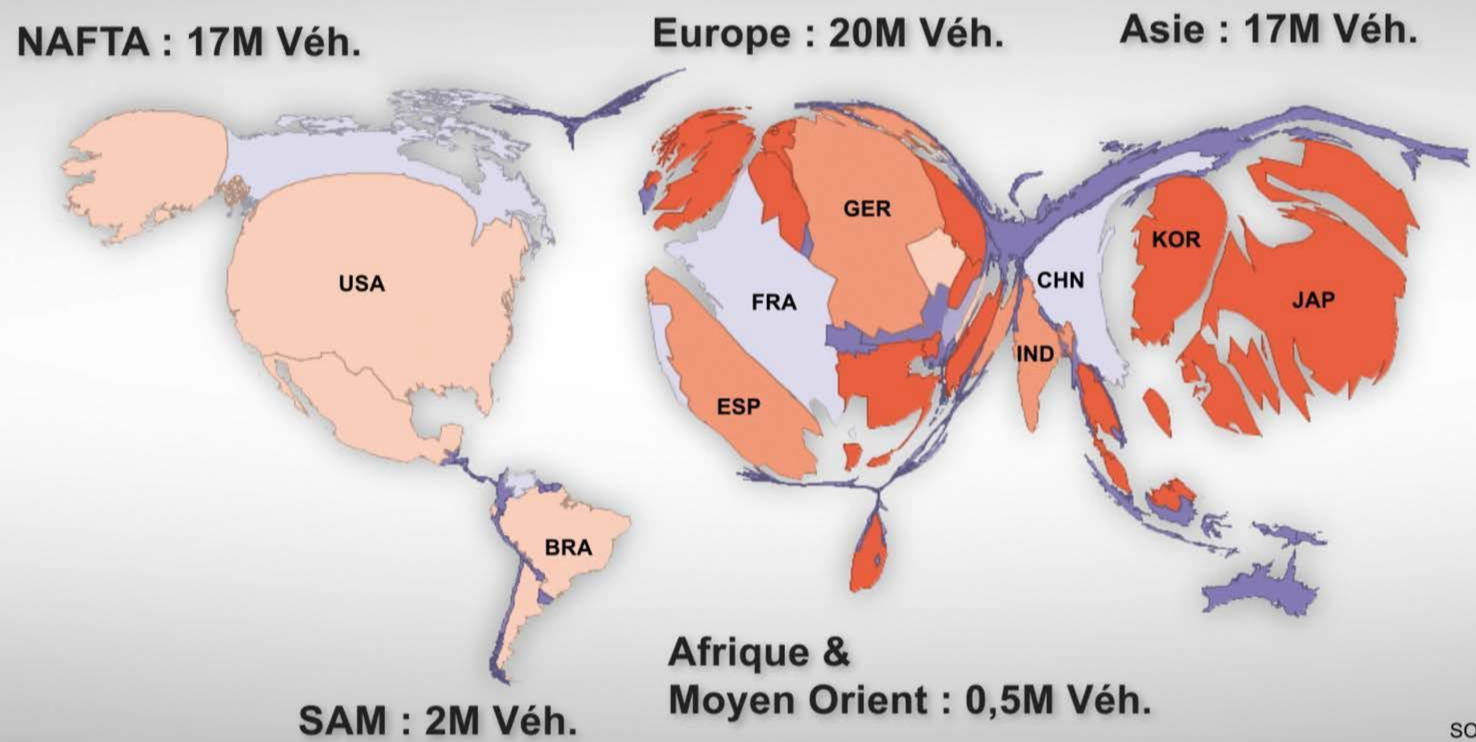
Anthony Black & Thomas McLennan
PRISM, School of Economics
University of Cape Town

Introduction

– Huge shift in production to developing regions – Asia and Latin America; but not Africa
– Since 2000, Africa one of the fastest growing regions
– Demand for motor vehicles highly income elastic as middle class expands
– Vehicle imports have grown rapidly by 19% per annum (excl. SA) since 2000.
– Passenger vehicle market could exceed 10 million units by 2030?

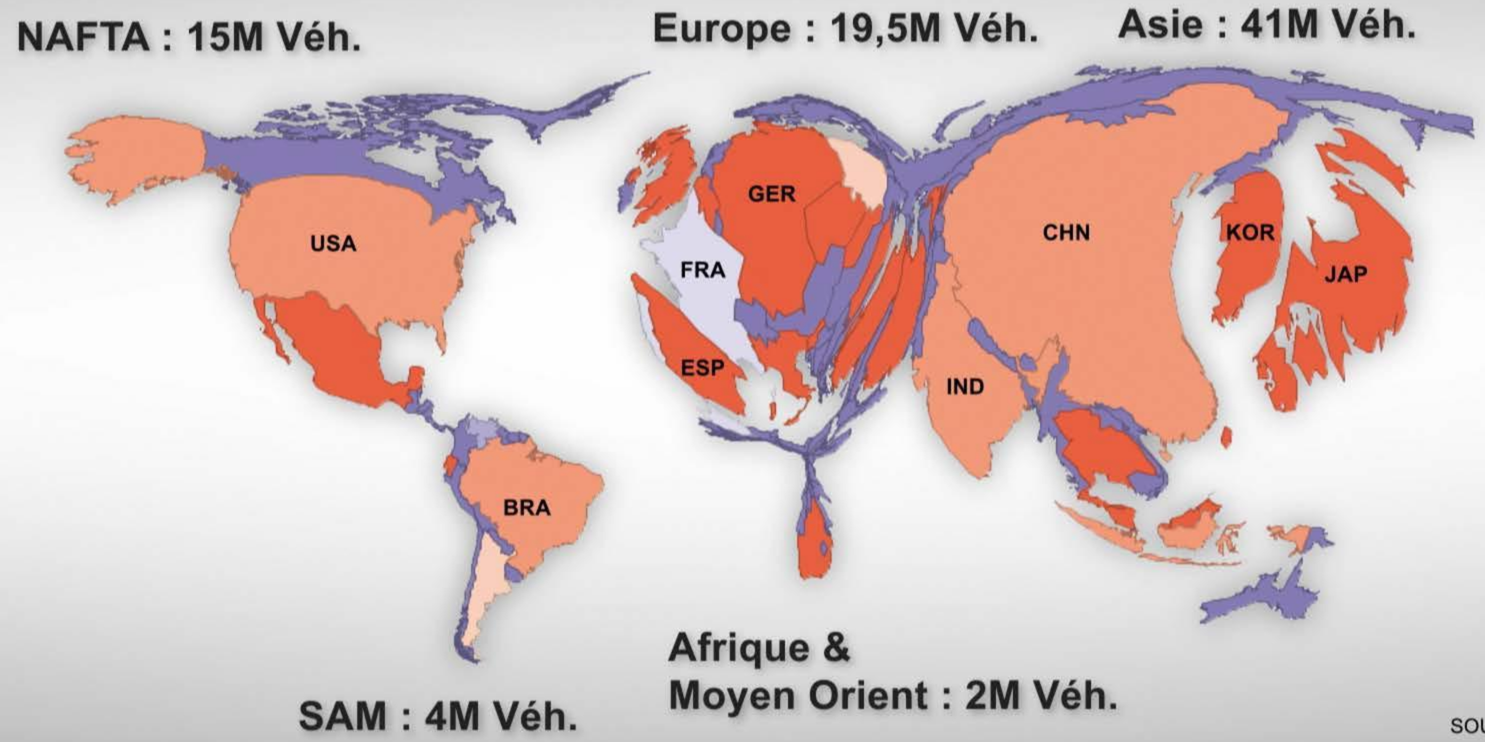
- How will demand be met - by imports or production in Africa?

Production automobile mondiale en 2000



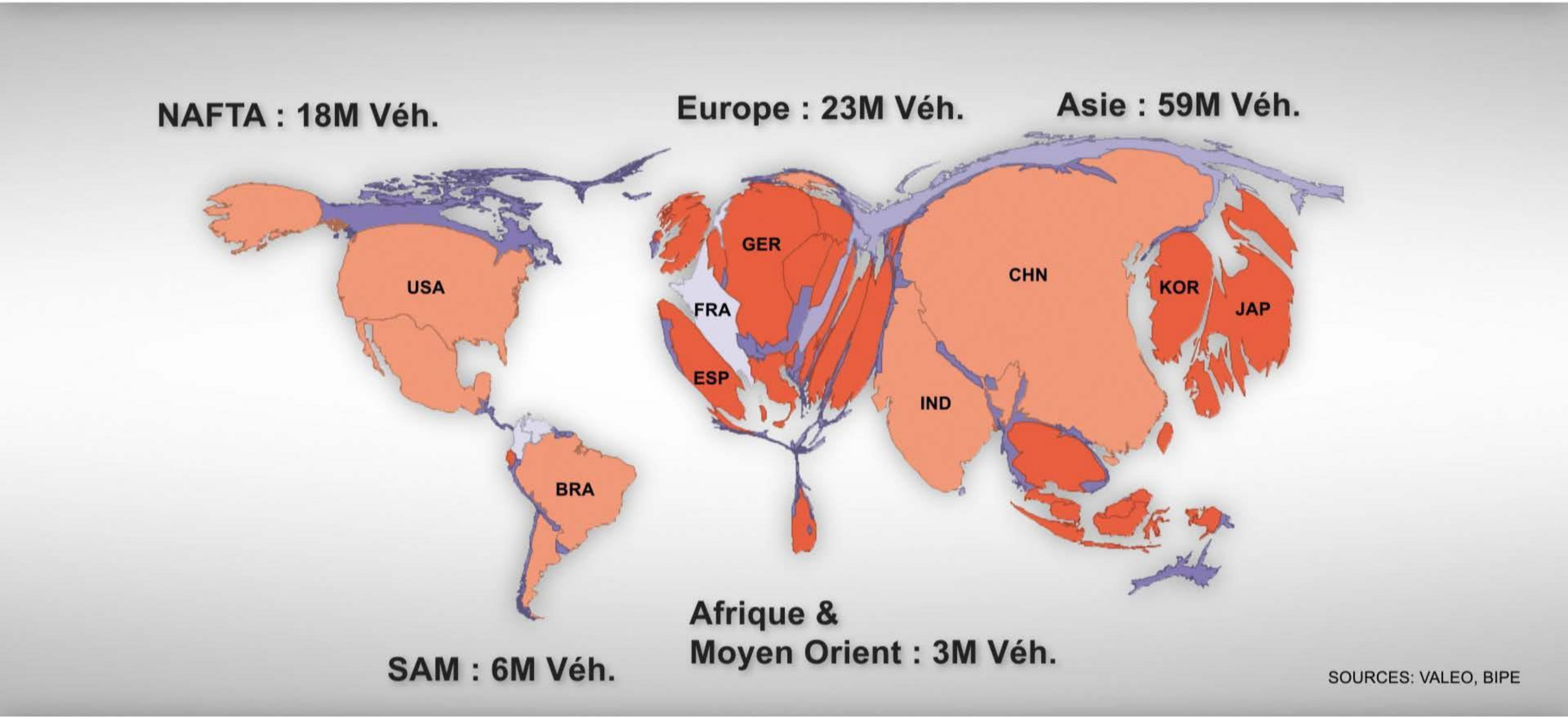
SOURCES: VALEO, BIPE

Production automobile mondiale en 2012

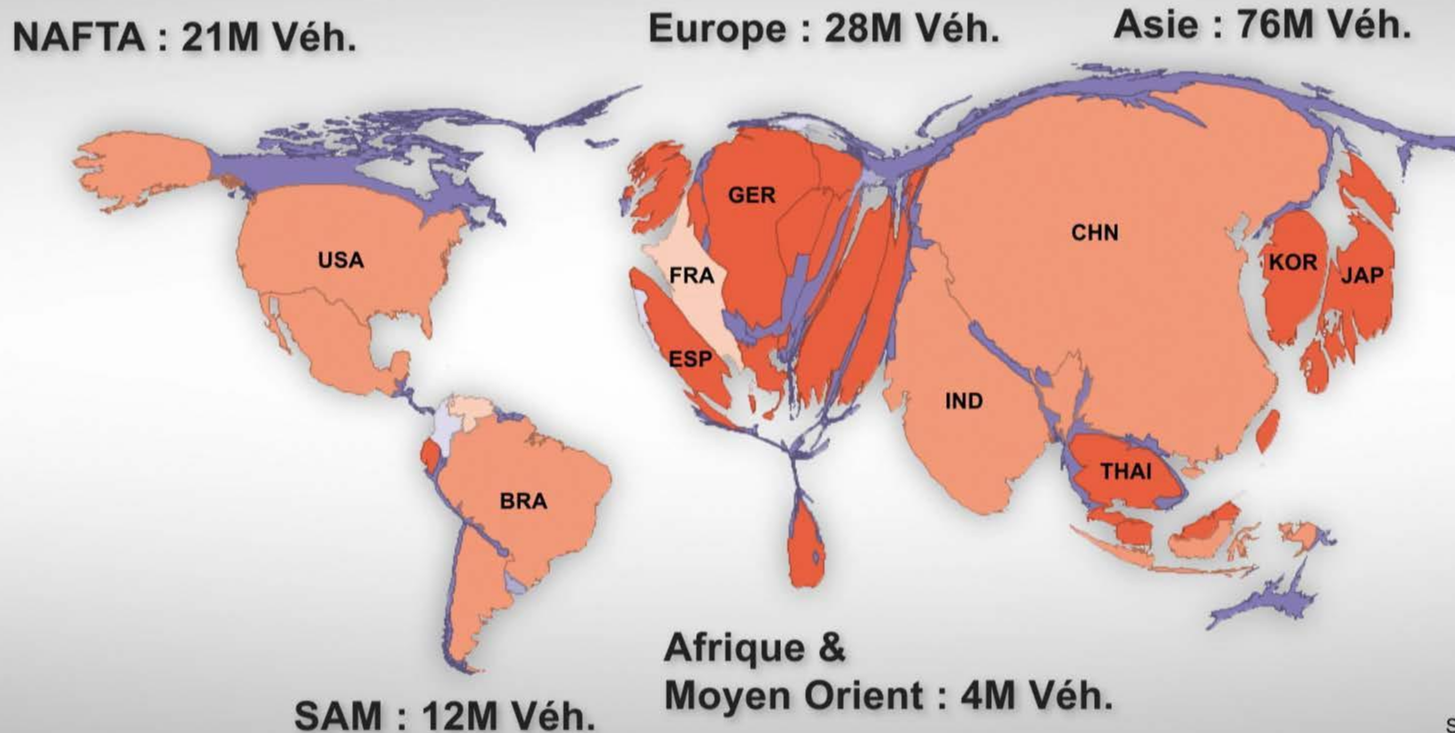


SOURCES: VALEO, BIPE

Production automobile mondiale en 2017



Production automobile mondiale en 2030



SOURCES: VALEO, BIPE

The extent of the opportunity:
A comparison of India and SSA markets production and trade

	India	SSA
GDP (Current $ bn)	1875	1659
Population (million)	1252	937
Per capita GDP (Current $)	1498	1771
New Passenger Vehicle market (000s)	2554	+/- 1 829 new and used
Passenger Vehicle production (000s)	3 139	Approx. 400
Tariff Level for Passenger Vehicles	100%	Generally low; No Unified Tariff
Passenger Car Imports ($ million)	277	11420
Passenger Car Exports ($ million)	5828	4345
Parts and Kits Imports ($ million)	3600	5039
Parts and Kits Exports ($ million)	4184	737
Net automotive trade balance ($ mill.)	+6135	-11377

SSA in a Nutshell

Data Challenges

- Unreliable government sources
- Different reporting methods
- Absent trade data
- Smuggling and corruption

Market Structure

- No unified markets
- Very little protection
- No production outside of SA
- Used cars dominate
- Flows from US, EU, Japan, S – Korea and Middle East
- West, East and Southern Africa have own trade routes

Method

- Used flows not stocks
- Flows by number of vehicles and not by value
- Used mirror trade data
- Japan, US and EU report used and new vehicles
- UN Comtrade

Estimate of passenger car market in SSA

Year		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SSA	Passenger Vehicles (000s)	579	698	872	1 055	1 246	1 169	1 107	1 124	1 457	1 643	1 829
Excl. South Africa	Passenger Vehicles (000s)	330	400	450	570	810	840	850	790	1 060	1 200	1 380
	Growth (%)	19.3	14.0	26.9	41.6	3.5	1.1	-7.3	34.8	13.4	14.6	

Source: UN Comtrade; Eurostat Comext Database; Japanese Customs and Tariff Bureau; US International Trade Commission and OICA

Top Importers and Exporters 2013

Top 10 New and Used SSA Passenger Vehicle Importers

	Number of Imported Passenger Cars
South Africa	407 370
Nigeria	400 124
Benin	330 868
Ghana	92 135
Kenya	62 751
Tanzania	36 191
Niger	34 581
Togo	33 676
Angola	33 156
Cameroon	30 622

Top 10 New and Used Passenger Vehicle Exporters to SSA

	Number of Passenger Cars Exported to SSA
EU	764 848
US	248 906
Japan	248 030
India	242 135
Korea, Rep.	71 305
Switzerland	47 712
Canada	36 688
South Africa	32 593
Australia	26 564
Thailand	16 150

Source: UN Comtrade; Eurostat Comext Database; Japanese Customs and Tariff Bureau and US International Trade Commission

New Passenger Vehicles Estimates

New Car Imports from Japan, EU, US and

Total Imports from Thailand, India, China, Turkey, Indonesia and South Korea 2013

	Excluding South Korean Exports	Including South Korean Exports
South Africa	340 996	383 427
Nigeria	125 995	136 715
Angola	25 621	31 504
Ethiopia	12 506	13 075
Ghana	11 909	15 734
Benin	8 095	8 136
Tanzania	7 152	7 242
Mozambique	7 066	7 519
Mauritius	5 187	6 492
Kenya	4 585	4 757

Source: UN Comtrade; Eurostat Comext Database; Japanese Customs and Tariff Bureau and US International Trade Commission

New Vehicles Estimates cont.

Producer Estimates

	Passenger Cars Sales
South Africa	450 561
Nigeria	40 000*
Botswana	31 122
Angola	20 000*
Reunion	19 465
Mauritius	7 500*
Ghana	6 600*
Cote d`Ivoire	4 000*
Senegal	4 000*
Tanzania	3 500*

Source: OICA Sales Data

Future Prospects

- Consumer spending increased 10.7% p.a. from 2000-2012 period
- If annual sales of passenger cars match this growth, they will surpass 10 million units by 2030
- Motorcycle market is larger and more concentrated – Nigeria aprox 1.75 million a year

Estimate of motorcycle market in SSA

Year		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SSA	Total Imports of New and Used Motorcycles (000s)	1238	1428	1788	2052	2578	3199	2347	2708	4099	3250	3849

Source: UN Comtrade

Tope 5 Motorcycle Importers 2013

	Number of Imported Motorcycles
Nigeria	1 370 177
Togo	474 237
Angola	343 102
Guinea	240 475
Kenya	173 147

Source: UN Comtrade

An African auto industry?

- Low level of industrialisation and virtually no vehicle production except in north Africa and South Africa
  - South Africa – long history but produces only approx. 600,000 vehicles per annum
  - History of small scale assembly in other countries; swept away by structural adjustment
- Conditions for industry growth?
  - A viable ‘automotive space’ i.e. regional integration
  - Improving manufacturing capabilities
  - Appropriate policy

A viable automotive space in the region?

- Regional value chains do not exist
- Only significant automotive trade with the region is exports from South Africa to other countries
- Regional integration making slow but steady progress
- The trade diversion problem
- A driver of regional integration?

Competitive capabilities

- Direct costs
  - Capital
  - Labour – wages high in comparison to per capita incomes relative to Asia (SA compared to Thailand)
  - Electricity
- Indirect costs
  - Regulatory environment
  - Infrastructure constraints such as a electricity outages
  - High collateral requirements for raising loans
  - Corruption

Policy

- Protection
  - No case of successful industry development without protection
  - Cannot compete against used car imports
  - Protection needs to be moderate and balanced
- Scale
  - High effective rates of protection on assembly lead to proliferation of low volume makes and models
  - In a number of African countries, policy is attracting small scale investments (e.g. Nigeria, Kenya, Ethiopia)
  - Nigeria runs risk of becoming an extreme case
  - Motor cycle production may be better option in some countries/regions

Production volumes for models and a single plant

		Production volumes (000s)				
Country	Vehicle type	>100	50-100	20-50	<20[a]	Year
China	Cars	1	1	2	7	1995
China	Pickups, utility vehicles, vans	0	1	8	19	1995
India	Cars	1	1	1	9	1995
Malaysia	Cars	1	1	1	14	1995[b]
Malaysia	Vans	0	0	0	5	1995
Mexico	Cars	3	3	5	1	1997
Mexico	Pickups, utility vehicles	2	2	1	1	1997
Argentina	Cars	0	1	6	4	1997
Brazil	Cars	5	3	4	3	1997
Indonesia	Cars	0	0	1	13	1995
Indonesia	Vans, utility vehicles	0	1	2	10	1995
Thailand	Cars	0	1	3	7	1995
Thailand	Pickups	0	4	1	1	1995
S. Africa	Cars	0	0	4	17	1995
S. Africa	Pickups, utility vehicles	0	0	1	7	1995

Conclusion

- Rapidly growing market could exceed 10 million vehicles by 2030
  - But divided among nearly 40 countries
- Regional integration is <u>essential</u>
- Manufacturing capabilities and infrastructure have to be upgraded
- Policy must avoid the dead end of encouraging very small scale investments