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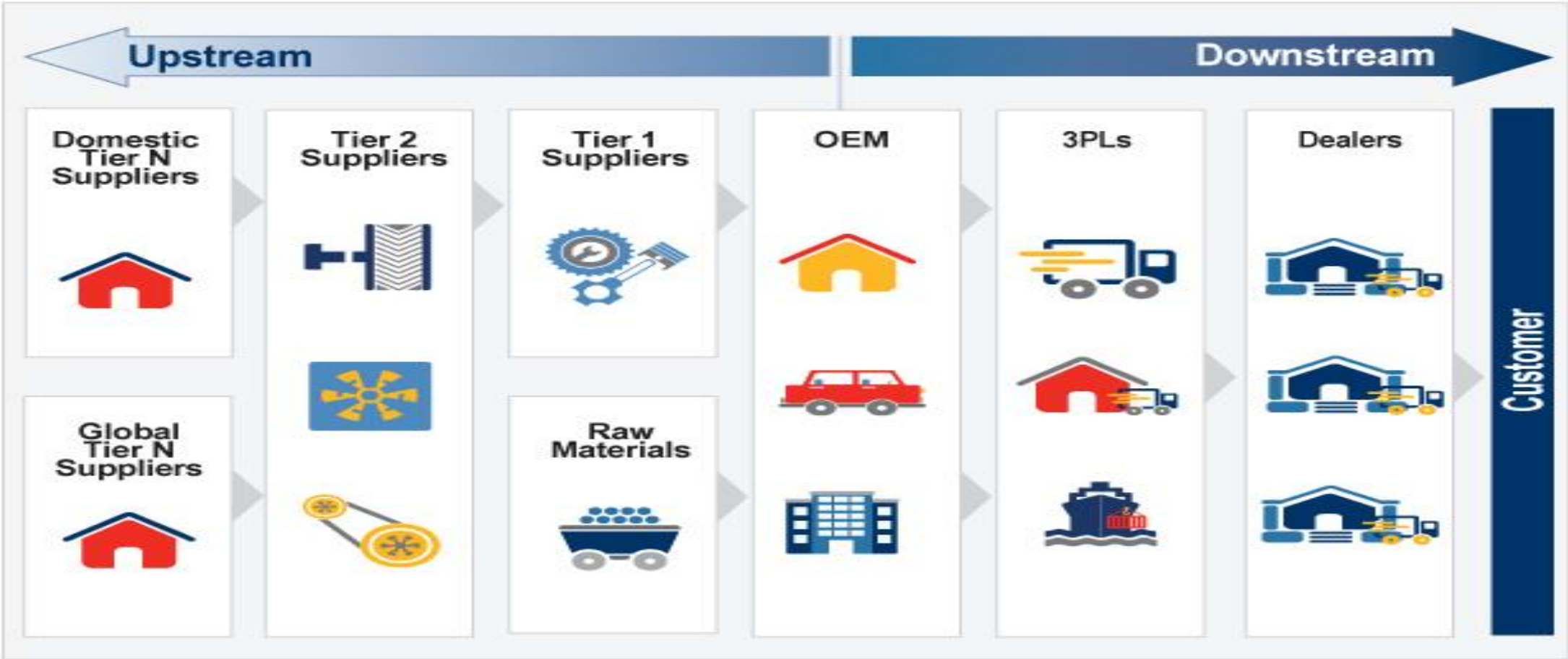
## Building a Value Chain for the Automotive Industry in Africa: Lessons from Nigeria

TIPS Development Dialogue Seminar

Mr Alec Erwin  
2 November 2016

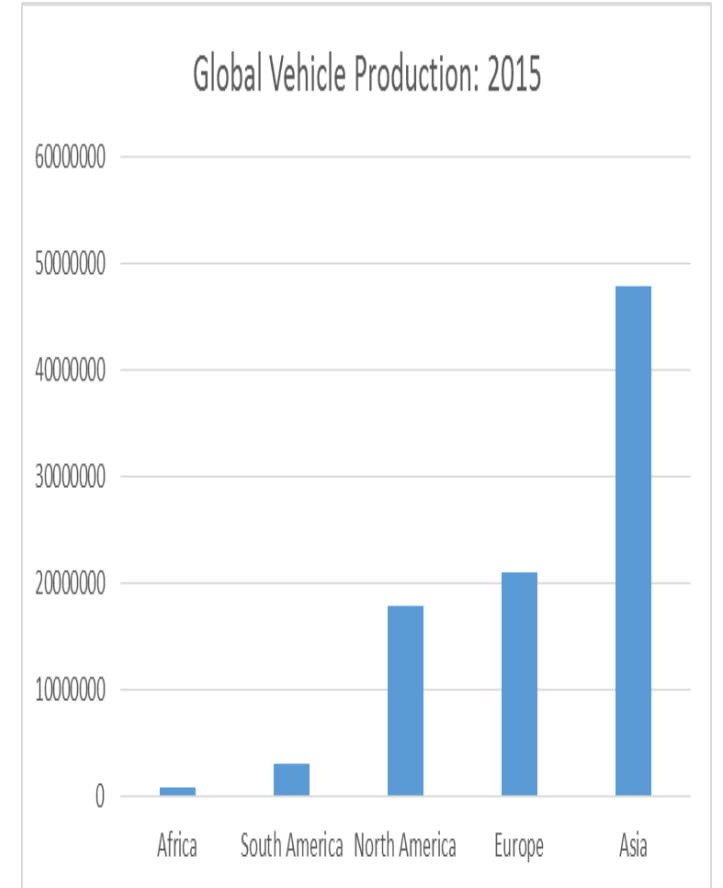
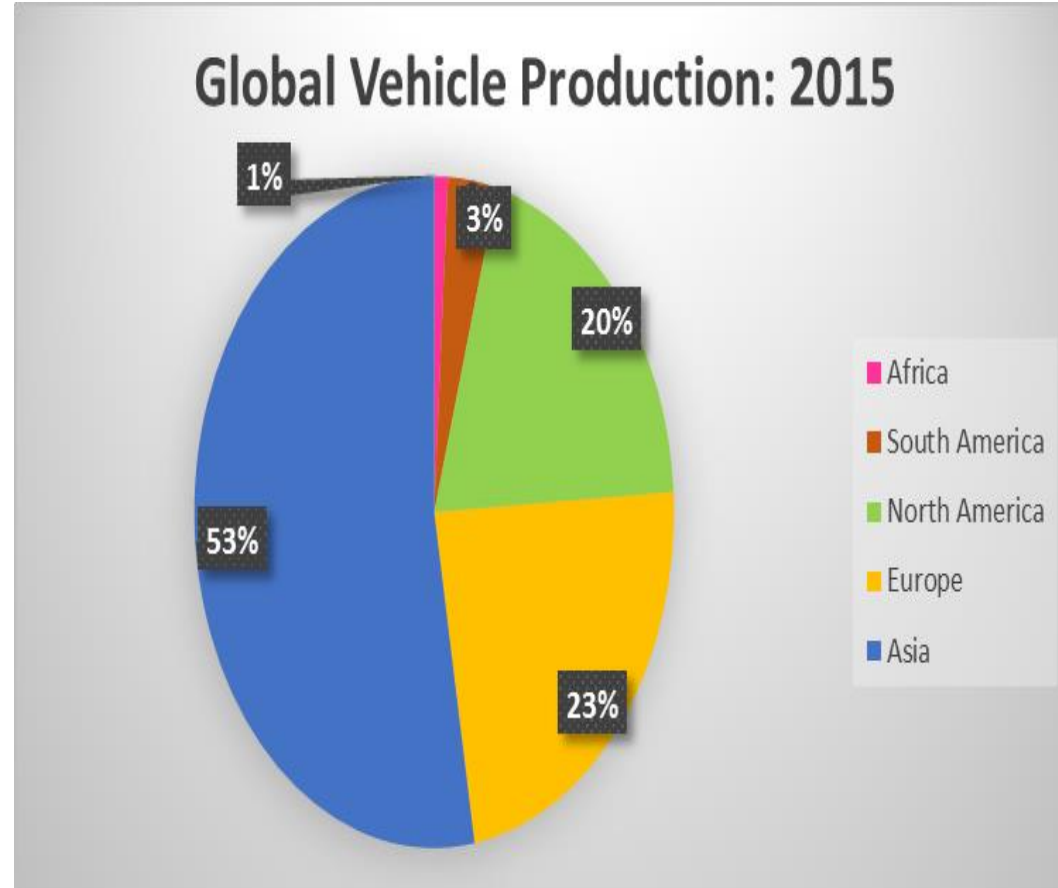


# A Snapshot of the Automotive Value Chain

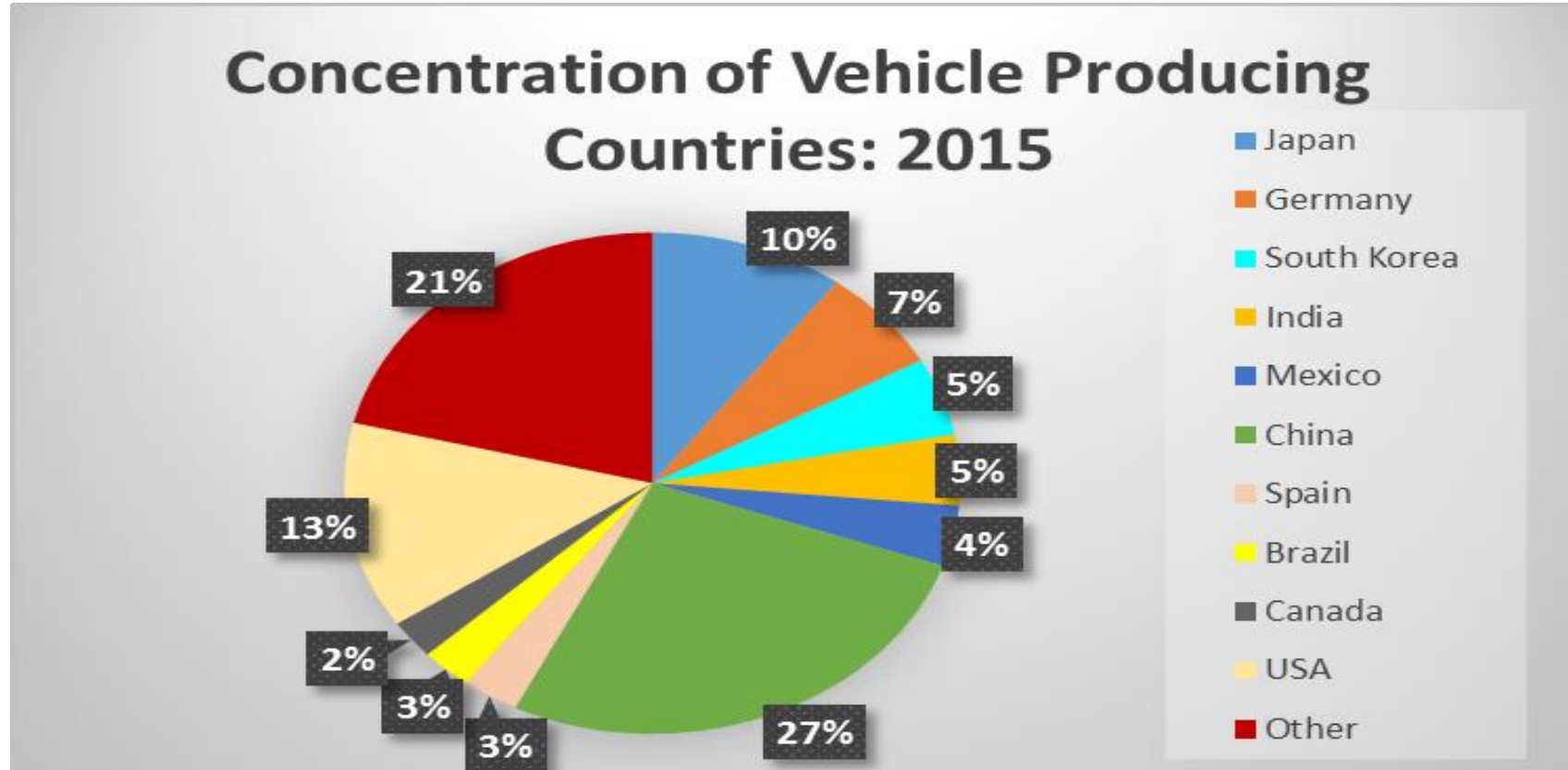


# Global Vehicle Production: 2015

	No. of Units
Africa	835 937
South America	3 015 616
North America	17 949 038
Europe	21 096 325
Asia	47 786 156
<b>Total</b>	<b>90 683 072</b>
Source: OICA	

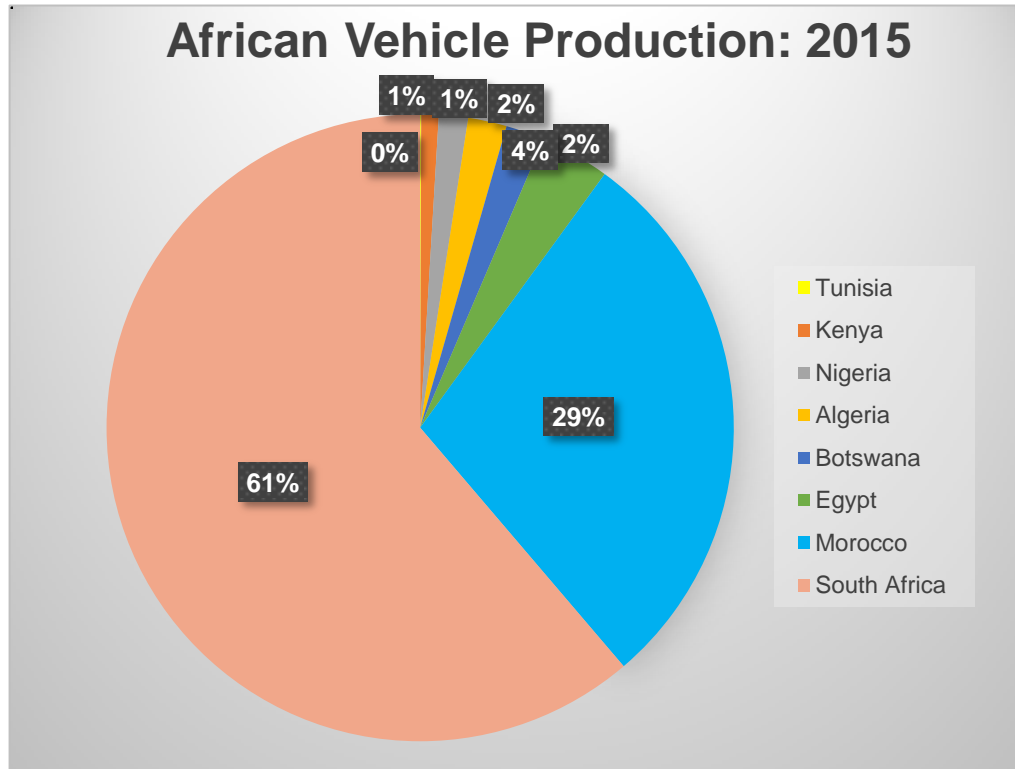


# Concentration of Vehicle Manufacturers: 2015

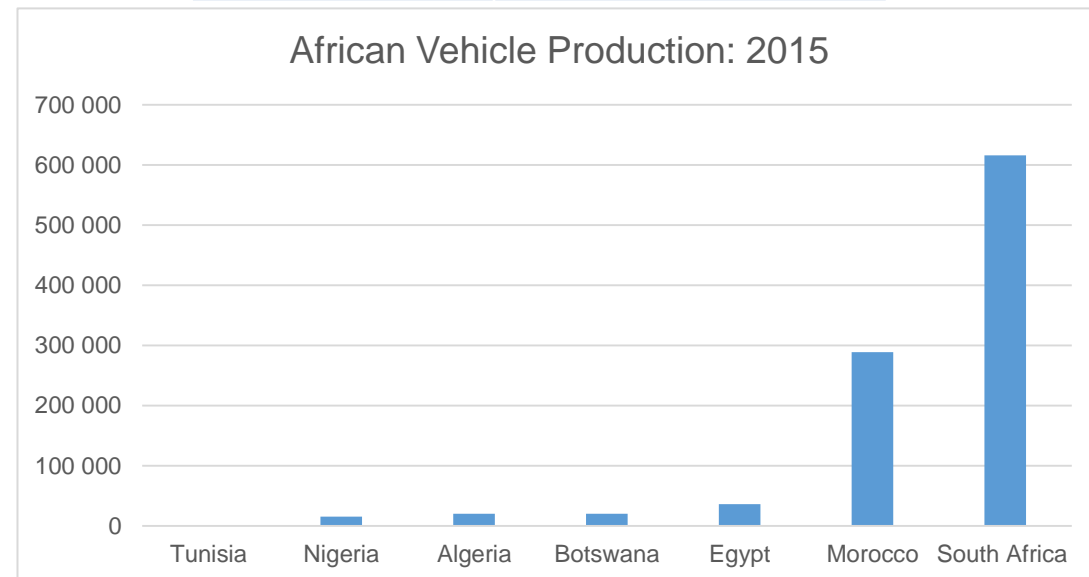


In 2015, ten countries were responsible for 79% of global vehicle production.

# Automotive Assembly and Manufacturing in Africa

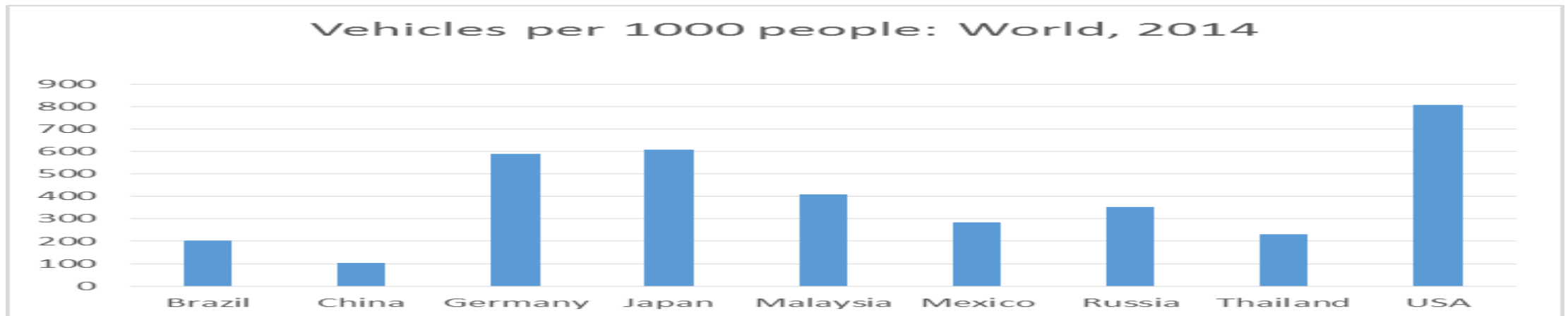
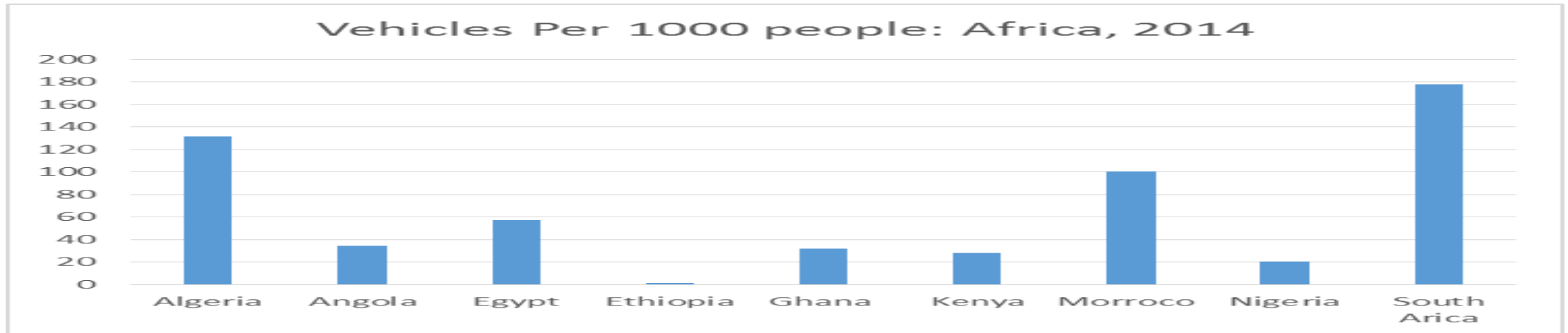


	No. of Units in 2015
Tunisia	540
Kenya (2014)	9 000
Nigeria	15 119
Algeria	20 000
Botswana	20 000
Egypt	36 000
Morocco	288 986
South Africa	615 658
<b>Total</b>	<b>1 005 303</b>



Sources: OICA (2015), Kenya Bureau of Statistics (2014) and NADDCC (2015)

# The African Market Potential: Vehicle Ratios



# The Global Automotive Industry: Key Benefits

- Facilitates domestic, and continental level, industrialisation.
- Creates job opportunities (high quality).
- Facilitates skills and technology transfer from established vehicle producing countries.
- Creates forward and backward linkages within an economy thereby catalysing further industrialisation.
- Reduces the balance of payments burden that arises from importing all transportation requirements.

# The impact of the automotive industry on a country's economy

## Balance of Payments Differentials: A Nigeria-South Africa comparison

<b>Imports (in thousands of dollars): 2014</b>	<b>Nigeria</b>	<b>South Africa</b>
Motor vehicles for the transport of persons	2 916 401	4 706 218
Motor vehicles for transport of goods, special purposes	1 081 039	1 178 076
<b>Total</b>	<b>3 997 440</b>	<b>5 884 294</b>
<b>Exports (in thousands of dollars): 2014</b>	<b>Nigeria</b>	<b>South Africa</b>
Motor vehicles for the transport of persons	4 040	4 372 027
Motor vehicles for transport of goods, special purposes	1 378	3 121 419
<b>Total</b>	<b>5 418</b>	<b>7 493 446</b>
Balance of Payments effects (in thousands of dollars)	-3 992 023	1 609 152
Source: UNCTAD		



# The impact of the automotive industry on a country's economy

- Instigates up and downstream employment.
- According to NAAMSA (2015), in South Africa the automotive industry accounts for:
  - 7,2% of GDP
  - 30,2% of Manufacturing output
  - 11,7% of all exports.

# Key Questions

- So, what needs to be done in order to develop, and realise the potential residing in, the African market?
- Before we answer this we need to first look at the challenges facing the sector in key African economies.
- We then need to look at the complicated structure of automotive development policies.
- We will then look at the concrete example of Nigeria and the formation of the African Association of Automotive Manufacturers.
- We will then look at specific initiatives that SA could take.

# Considerations in developing the automotive sector

- Heavily reliant on economies of scale (i.e. requires large markets and long production runs).
  - Important therefore to have regional linkages, so as to increase volumes.
- Characterised by extensive trade networks (in both parts and fully assembled units), within and between countries.
  - Important therefore to have efficient ports, logistics, customs regulations and comprehensive trade agreements.

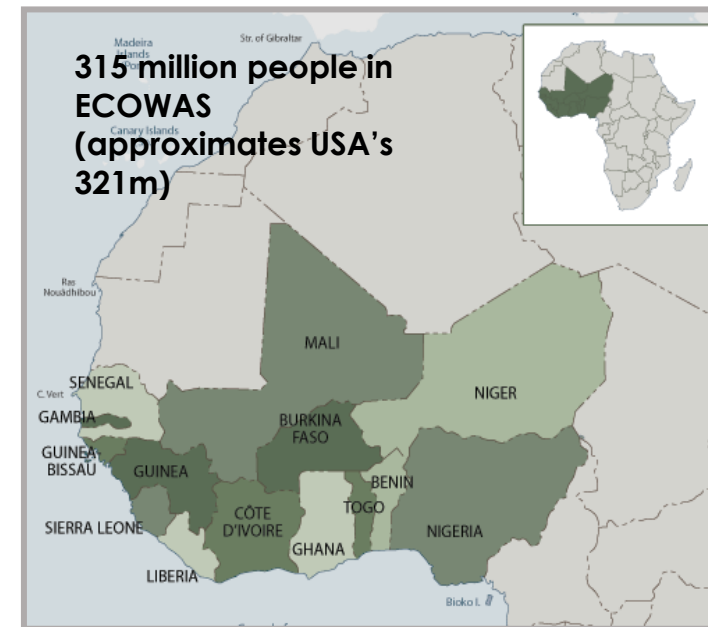
# Automotive Assembly in Africa

- Challenges:
  - Lack of good policy, coupled with inconsistent policy implementation
  - Weak industrial infrastructure
  - Poor logistics
  - Weak supportive regulatory institutions
- Opportunities:
  - Market size and potential
  - Contribution to industrialization and balance of payments
  - High quality employment opportunities
  - Intra-Africa industry and trade links in line with the AU Programmes
- Specific opportunities for high population countries, such as Nigeria, Ethiopia and Kenya.

# Population and Vehicle Production Comparators

Country	Population (million)	Vehicle Production
China	1 300	23.7m
India	1 200	3.8m
USA	322	11,6m
Indonesia	255	1,3m
<b>Brazil</b>	<b>212</b>	<b>3,1 m</b>
Pakistan	199	±125 000
Nigeria	183	<100 000
Bangladesh	168	Limited
Russia	136	1,8m
Japan	126	9,7m

- Sizeable delta between population and vehicle production in countries of similar population size such as Brazil.
- Large domestic market in Nigeria – once domestic demand is met, there is considerable export potential for ECOWAS and the rest of Africa.



Source: Adapted from OICA

# Summary of Nigerian experiences in the automotive sector

Nigeria's auto industry is about 60 years old, but the industry declined in the 1980s and there have been two separate initiatives to revive the industry.

- 1) In the 1990s, the Nigerian government introduced the Automotive Policy for Nigeria.
  - At first the automotive industry prospered from this intervention, but inconsistent and stifled implementation of the policy lead to a decay in the industry.
  - Nonetheless, vehicle assembly continued to occur; albeit, in an erratic, disorganized and low-scale manner.
- 2) In 2014, the government introduced the National Automotive Industry Development Plan (NAIDP), with a view to reinvigorating automotive assembly and manufacturing.

## Core Objectives of the NAIDP

- Provide the opportunity for existing capacity in Nigeria to upgrade and form partnerships with OEMs so as to increase local vehicle production.
- Attract new OEM investors into the Nigerian automotive sector, to increase the size and diversity of the industry.
- Establish a component manufacturing sector in Nigeria.
- Establish best practice in the dealership, financing and after-sales segments of the industry.
- Provide affordable vehicles to the domestic and neighbouring country consumers.
- Initial investors to be large Nigerian corporations.

# The African Association of Automotive Manufacturers (AAAM)

- Established in November 2015
- Founding members include global automotive manufacturing companies or Original Equipment Manufacturers (OEM):
  - BMW
  - Ford
  - General Motors
  - Nissan
  - Toyota
  - Volkswagen.
- Membership is open to other OEM, as well as to companies working in the automotive value chain (such as components or finance, for instance).



# AAAM Vision and Mission

- Work with African governments to unlock economic potential and promote automotive sector across the continent.
  - Target markets: Nigeria, Algeria, Egypt, Kenya, Angola, Morocco, Ethiopia and South Africa.
- Promote investor friendly regulatory frameworks and sustainable manufacturing .
- Promote infrastructure development, job creation, skills transfer and localisation programmes.

# Thoughts on what SA could do