

Nigeria's automotive industry plans: What exactly are the expectations? (1)

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A direct result of the global economic slump of the last decade is the shift in emphasis in policy making from pure economic output to job creation. The need to create jobs at a rate that will demystify the challenge of unemployment has never been so critical. As the world and its commerce becomes more dependent on advances in information and communications technology and their several applications for businesses, sectors with significant capacity for job creation or employment opportunities must be unlocked.

The automobile industry remains one industry that has largely embraced technology while still creating jobs in large numbers. In South Africa for instance, the industry employs over 300,000 people while contributing about 6% to the country's GDP.¹

Perhaps it is these rosy numbers that inspired the then Minister of Trade and Investment under the administration of former President, Dr. Goodluck Ebele Jonathan, to design the National Automotive Industry Development Plan (NAIDP) in order to stimulate investments in domestic vehicle production and assembly.

Nigeria experienced significant surge in automobile sales following independence in 1960. This led to the growth of dealerships like Leventis, R.T. Briscoe and UAC, who provided sales and aftersales services to customers.

Assembling of cars only commenced in the 1970s when government entered into partnerships with the French company Peugeot to set up Peugeot Automobile Nigeria (PAN) in Kaduna. Other similar arrangements led to the creation of Volkswagen of Nigeria (VON), Anambra Motor Manufacturing Limited (popularly called ANAMMCO) and Steyr Nigeria Limited. This resulted in increased production of locally assembled cars. However, as the country's economic fortunes suffered significant decline in the 1990s, leading to a slump in



manufacturing sector, major industries like automobile and textiles industries also suffered huge losses. Subsequently, in the midst of the economic decline, local assembling and manufacturing of vehicles came to a halt. Subsequent efforts to revive the automotive industry such as the 1993 Auto Policy also failed owing to the new dynamics in the global auto market, which led to the rise of Japanese automakers such as Toyota due to their fuel efficient technologies. In the end, the local assembly plants and firms like PAN and VON became worse off as importation of fairly used vehicles popularly known as "Tokunbos" became the order of the day up until recently.

The NAIDP represents the Federal Government's boldest step at reviving local car assembly in over three decades. The policy, which was introduced in 2014, seeks to encourage local manufacture of vehicles while phasing out the importation of used vehicles. Other benign motives of the policy include job creation, stimulation of the value chain, diversification of the Nigerian economy, provision of affordable

vehicles for the average Nigerian and above all promotion of foreign direct investment in the country. The local assembly of cars in Nigeria could also lead to significant savings in the foreign reserves. In 2012 alone, Nigeria spent about \$3.5 billion on car importation.²

In the light of these objectives, the introduction of the NAIDP would inexorably appear to be a step in the right direction for Nigeria's automotive industry. A converse announcement by the Government that "the policy will not result in banning of the importation of vehicles in Nigeria but will focus on promoting investments in affordable made-in-Nigeria vehicles"³ may potentially cast doubt on this landing.

The high tariff structure introduced by the policy on imported second-hand vehicles cars - 70% levy and duty - was not aimed at boosting government revenue but at discouraging importation and attracting more investments in local production. This is probably why an accommodating tariff of 35% was imposed on cars imported by companies who have expressed

interest, and met investment milestones, for local assembly. Nevertheless, the desired increase in significant investment in local production is yet to manifest (probably or possibly this is too soon or early to expect?) nor has importation of second-hand vehicles been discouraged. The reality is more of the severe leakage in government revenue as smuggling continues to fill the local demand for Tokunbo cars. This may undermine the competitiveness of the investors that have shown interest in local assembly plants.

Further, the lack of emphasis on the value chain within the industry will defeat the purpose of the automotive policy. According to the policy, it is expected that most vehicle parts will be imported in the early years of implementation with a focus on assembling locally before domesticating the manufacturing of the component parts. The policy concentrates on some components that the country currently has capacity to produce such as welded parts, electrical parts, plastic and rubber parts etc.

Some major recommendations included in the Plan include revival of the tyre industry by granting pioneer status incentive to all tyre plants. Tyre manufacturing plants can also import tyres at 5% import duty to meet the shortfall in supply in the initial period. Further, tariffs on car and truck tyres will be harmonised and tyre manufacturing equipment will be allowed to be imported duty free.

However, apart from few indigenous producers, the industry is basically void of local manufacturers leaving most of the supply in the hands of foreign companies. The importance of deepening the value chain in the automotive industry cannot be overemphasized if we are to achieve the objective of creating jobs through the policy. As usual, the Federal Government has thrown some

package of fiscal incentives as part of sweeteners under the NAIDP to persuade target investors. This and other considerations are reviewed in the concluding instalment of this publication.

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¹ <http://www.southafrica.info/business/economy/sectors/automotive-overview.htm#.VcOxVHnJBes>

² NAIDP policy

³ <http://venturesafrica.com/nigerias-new-automotive-policy-a-reminiscent-air-of-positivity>

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