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

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A direct result of the global economic slump in 2008 was a focus of the automotive industry on a shakeup in production. The aim was to ensure that the companies were not left behind in the new economic climate. The industry, therefore, turned to domestic production as a way to ensure productivity and to reduce costs. It was also a way to ensure that the companies were not left behind in the global automotive industry, which was moving towards more fuel-efficient vehicles. The automotive industry in Nigeria has experienced a significant surge in production since the late 1990s. In fact, it was the only sector that showed a positive trend in production. This was due to the increase in demand for automobiles in Nigeria, which was driven by the growing middle class and the increasing number of people who could afford to buy cars. However, the industry faces several challenges, including the need for local components and the high cost of imported parts.

The automotive industry in Nigeria is one of the key industries that contribute to the country’s GDP. In 2019, the industry contributed about 6% to the country’s GDP. This is a significant contribution considering that the industry employs over 300,000 people while contributing about 6% to the country’s GDP. Nigeria’s automotive industry plans: What exactly are the expectations? (1)

Perhaps it is the rosy numbers that inspired the then Minister of Trade and Investment under the administration of former President, Dr. Goodluck Jonathan, to design the National Automotive Industry Development Plan (NAIDP) in order to stimulate investments in domestic vehicle production. This led the government to offer incentives such as reduced tax rates on imported parts and equipment. However, the plan was not aimed at promoting the domestic production of vehicles. Instead, it was focused on encouraging the importation of used vehicles to meet the demand for vehicles in Nigeria. In 2012 alone, Nigeria spent about $3.5 billion on car importation.

In the light of these objectives, the introduction of the NAIDP would inevitably 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 the importation of vehicles in Nigeria but will focus on promoting investments in affordable made-in-Nigeria vehicles” may potentially cast doubt on this landing.

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.

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 installment of this publication.

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