

Africa wants to place itself on the automotive roadmap

By [Ryan Bax](#)

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Africa is keeping investors on their toes with forecasts far from being true to their word. The inherent volatility and instability of African markets is difficult to fully grasp until seen in hindsight.



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As was the case in 2013, new vehicle sales were forecast to exhibit strong growth rates on a yearly basis. However, the weakening economics of developing nations, soft oil prices, growing exchange rate risk, and a preference for safe-havens has seen the market fall on a yearly, and even monthly, basis.

Despite the widespread import of used cars, the average level of motorisation remains the lowest globally in Africa, at an estimated 44 vehicles per 1,000 inhabitants. New vehicle sales in Africa lag significantly behind other regions, with unit sales estimated at 1.55 million units in 2014. This represents approximately 1% of global new car sales and 1.36 new vehicles for every 1,000 inhabitants. This contrasts with 18.05 and 56.94 new vehicles per 1,000 inhabitants in China and the United States in 2016.

Gains to be made

If new vehicle sales on the African continent grow to 7 units per 1,000 inhabitants, which is a significant feat in itself, total new vehicle sales will reach approximately 7.7 million units annually. This would shift Africa to being the 4th largest new car regional market after China, the USA and Europe and larger than Japan at 4.3 million units in 2016. It is this potential that has enticed automakers into Africa.

In response to the fervour exhibited by CEOs and manufacturers, African governments have understood the gains to be made from the automotive sector and adopted policies to achieve the wider government objectives of industrial and economic growth. These policies are export oriented and will permit automakers to assemble cars in the local economy at competitive rates, yet source the necessary demand from foreign markets that possess the disposable income.

Nigeria

Although South Africa, Kenya and the countries of North Africa have been producing vehicles for a number of years, it was Nigeria that took the greatest steps to attract investment into their local sector. The Nigerian government developed the

National Automotive Investment and Development Programme (NAIDP) in 2013, which provides wide-ranging benefits to automakers wanting to assemble vehicles in the country.

The policy was well received, with over 10 assembly plants being setup to produce for the local and West African automotive markets. Although new vehicle sales reached approximately 50,000 units in 2014, the weak economic climate has reduced sales to approximately 7,000 units up to November in 2016. As a consequence, assembly operations in Nigeria have slowed to a halt as inventories continue to expand unsustainably.

Morocco

Upping the ante, Morocco developed an investment cluster programme which saw Renault enter the local market. Renault will be the only global automaker assembling vehicles in the country until the arrival of Peugeot in 2019. In neighbouring Algeria, the government's drive to create a local automotive manufacturing base has led to a quota system being placed on all automakers importing cars to "force" the investment into local assembly.

New vehicle sales dropped from over 300,000 units in 2014 to 160,000 units in 2015 and a forecast shows 95,000 in 2016 due to the quotas. A number of automakers have noted their intent to invest in the country, with Volkswagen being the latest to do so in order to overcome the market limitations.

Kenya

Kenya is currently looking to develop a specialised policy to create a turn-around in their local assembly sector, which started to slow in late 2015 due to a lack of support measures and the enforcement of a 20% excise duty on locally built vehicles. Placing further pressure on Kenya are the aspirations of Ethiopia, which is looking to become a major assembler of vehicles on the continent within the next 10 to 20 years.

The introduction of investment promotion measures has seen a number of Chinese companies establish assembly facilities while, more recently, Hyundai noted its intention to commence assembly in the country.

South Africa

The South African government announced that a follow-on Master Plan from the Automotive Production and Development Programme (APDP) will provide confidence and stability for automakers to plan further investments in South Africa. The Master Plan will go beyond the APDP by providing benefits not only for light-duty vehicles, but also for motorbikes and medium and heavy vehicles.

Regulatory and labour limitations, along with the slowing new vehicle sector, are challenges for sector participants; however, strong demand from the United States and Europe is maintaining growth in the sector.

Unfortunately, wide-ranging challenges throughout the African markets are restricting the success of these policies and

economic goals. However, it is not the economic and regulatory factors alone that have limited success; it is also the policies themselves that pose challenges. Automotive policies place limiting covenants on automakers that lift the business case for establishing assembly facilities in the said country. Due to the fact that a number of countries have enforced these policy stipulations, the combination of high initial investment cost and concern for small new car market size, the sustainability and viability of these policies is being questioned.

Establishment of the AAAM

In response, the [African Association of Automobile Manufacturers](#) (AAAM) was established to assist countries wishing to participate in the automotive value chain. The association consists of senior management with representation from the South African divisions of BMW, Ford, General Motors, Nissan, Toyota and Volkswagen. The Association engages with African governments and automotive bodies to enhance sustainability and the working environment for the eventual growth and success of automotive markets in Africa.

As a consequence of these challenges, Egypt is currently developing an alternative approach to revitalising their automotive assembly sector. As the new vehicle sector shows a strong resurgence following the Arab Spring, the government is looking to benefit the wider economy from this trend. In a repeat of the 1960s, the government is aiming to invest in and engineer an entirely new Egyptian vehicle for Egyptians. The plan aims to ultimately produce 1 million units annually. The policy is at an early phase and time will tell whether it reaches consensus among policymakers.

Although the African new vehicle sector is facing a number of challenges, various developments will facilitate the wider recovery toward 2020. The recovery is expected to show slow growth initially, but is anticipated to benefit the wider supply side of the economy, which will enable sustainable growth in the coming decades.

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