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Impact of Government Policies on the Development of Automotive Industry in Nigeria

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Abstract*: Automotive industry is very symbolic in a lot of countries. It is such a large employer and source of pride in many local economies. Hence the Federal Government of Nigeria introduced the Nigerian Automotive Industry Development Plan (NAIDP) in 2013 to revitalize the auto industry. Therefore the main objective of this research work is to examine the impact of Government Policies on the development of automotive industry in Nigeria. Outcomes from the test of hypotheses indicate a certain level of impact of the government policies on the development of automotive industry in Nigeria. However, the National Automobile Design and Development Council (NADDC) need to put more efforts on ensuring the full implementation of the various policies put in place for the development of automotive industry in Nigeria. In this regards, the following recommendations are made: (i) continued policy support by the NADDC towards implementation and enforcement aimed at protecting the auto industry to ensure steady growth and development, (ii) improved chances of owing a car through a favourable vehicle financing options in order to encourage patronage of locally assembled vehicles, (iii) tightening the border, (iv) setting up auxillary industries, and (v) building of human capital.*

Keywords:*Government Policies, Development, Automobile Industry, Nigeria*

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I. Introduction

Automotive industry in Nigeria begun in the 1950s comprising the production of both passenger and commercial vehicles. The beginning of production was by Federated Motors Industries, a subsidiary of United Africa Company with the assembly line of Bedford TJ Trucks. Also amongst the early production was SCOA's production of Peugeot 404 Pick-ups all for commercial purpose. In the 1970s, that is during a period of oil boom in Nigeria, a significant development in the auto industry begun, whereby the Federal Government of Nigeria signed joint venture partnership with some foreign car manufacturers to assemble vehicles and provide technical assistance towards vertical integration within the local industry. However, these foreign brands gradually dominated the auto industry from the middle of the 1970s to the end of the 1980s. The passenger vehicles brands were Peugeot 504 assembled by Peugeot Automobile Nigeria Limited (PAN), Kaduna in 1975 and Volkswagen 1300L assembled by Volkswagen og Nigeria Limited (VWON), Lagos in 1978.

While the commercial vehicles manufactures- Anambra Motor Manufacturing Company Limited (ANAMMCO), Emene-Enugu (1980; Steyr Nigeria Limited, Bauchi, National Truck Manufacturers (NTM), Kano (Fiat); Leyland Nigeria Limited (LNL), Ibadan. From 1970 to 1980, total production capacity of the Nigerian Automobile industry projected was about 108,000 cars, 56,000 commercial vehicles (Trucks) and 10,000 Tractors, 1,000,000 Motorcycles and 1,000,000 bicycles annually. The strategy was to encourage backward integration with the mills in tow. This establishment translated the country into quick development. The period during the establishment of the assembly plants coincided within a dynamic period in the global automobile sector.

The automobile sector in Nigeria was projected to be a vital component of the national economy, contributing to overall economic development through capacity building which was made possible by technology transfer, and job creation. In 1982, the Federal Government of Nigeria completed another set of agreement with five manufacturers for the establishment of the following five height commercial vehicle assembly plant: Mitsubishi in Ilorin, Nissan in Minna, Peugeot in Gusau, Isuzu in Maiduguri and Mazda in Umuahia. But these were not established, though General Motors (GM) subsequently entered into partnership with UAC to produce Isuzu by FMI of UAC, which later became GM Nigeria Ltd.

With the introduction of the Nigerian Automobile Industry Development Plan (NAIDP) in 2013 to revitalize the Auto industry, there has been increased activity in local vehicle assembly. The National Automobile Design and Development Council (NADDC) granted thirty five companies licenses to assemble/produce vehicles. Presently, fifteen companies are operational while others are at various stages to set up the assembly operations.

II. Statement Of The Problem

Despite the introduction NAIDP in 2013, the production capacity of the automobile industry in Nigeria is low than what was projected. The story of the industry at one point was a sordid one, similar to that of other segments of the economy such as textile sector and agro-businesses, where vibrant industrial production gradually gave way to shameful dependence on massive importation.

The automobile industry went through a decline in the early 1980s and 1990s with the increasing acceptance of smaller and technologically advanced cars from all over the world which was made worst by the influence of second hand cars popularly known as "Tokumbo" that rendered Nigeria's assembly plants, which had been designed mostly to fit the production of lower technology vehicles uncompetitive. Modern automobiles which are characterized by standardization, fuel economy, and the use of computer aided design quickly displaced the larger, less functional and less fanciful cars churned out from the Nigeria automobile plants which had become antiques.

III. ObjectivesOf The Study

The objectives of this study are to:

i. Examine the impact of Government Policies on the development of automotive industry in Nigeria.
ii. Investigate the reasons why the automobile assembly plants in Nigeria could not produce to their full capacities to meet the vehicles need in Nigeria.
iii. To identify the factors that militates against the growth of automobile companies in Nigeria and ways to mitigate them in order to achieve the desired economic development.

IV. Literature Review

The independent variable in this research is "Government Policies" while the dependent variable is the "Development of Automotive industry in Nigeria". The deliberate or international change in Government Policies (Independent Variable) will have effect on the development of automotive industry in Nigeria (Dependent Variable). In the year 2013, the Federal Government of Nigeria introduced the Nigeria Automotive Industry Development Plan (NAIDP) to revitalize the auto industry in the country. The fostering of a healthy national automotive industry requires government policies such as NAIDP at both the macroeconomics as well as microeconomic levels which promote the development of automotive production and sales.

Concept of Government Policy

A government is a body of people that works to effectively and successfully guide a unit or community. One thing government does is a set and administer policy. They use customer, Laws, and institutions to exercise political, executive, and sovereign power with the intent of managing a state of well-being that benefits all aspect of the community or unit.

While a policy is a principal or course of action proposed or implemented by a governing body. Governing bodies are groups of people that act in union to guide and support a community, unit, business, institution, etc. Policies can take many forms depending on whether you are looking at an institution, organization, government, or other body. Overall, Policies do share some common features:

i. Policies are authoritative declaration promoted by a person or body given the power to do so.
ii. Policies state and influence ways to perform action and sometimes by whom.

Concept of Development of Automotive Industry

The automotive industry is very symbolic in a lot of countries – In the United States; it has been a symbol of freedom for decades. For Japan and Korea, it is a symbol of their rise over the past 50years into very advanced manufacturing economies. And now places like Mexico and India are on that same path.

Since the automotive industry is such a large employer and source of pride in many local economies, it is no wonder that a lot of countries are building regulatory frameworks or policies that incent manufacturing and in particular, export manufacturing.

Government Policies Relationship with Development of Automotive Industry

The fostering of a healthy national automotive industry requires government policies at both the macroeconomic as well as microeconomic levels which promote the development of automotive production and sales. In Nigeria, with the introduction of the NAIDP, there has been increased activity in local vehicles assembly. The National Automotive Design and Development Council (NADDC) granted about thirty fivecompanies licenses to assembly/produce vehicles. Several Original Equipment Manufacturers (OEM) representatives have set up assembly plants to take advantage of the policy.

Theoretical Review

Theory of Production: Short-Run Analysis

The theory of Production explains the principles by which a business firm decides how much of each commodity that it sells (Its "outputs" or "Products") it will produce. And how much of each kind of labour, raw materials, fixed capital goods, etc., that it employs (its "inputs" or Factors of Production") it will use.

Economics, models, and theories are not dynamic, they are fixed to a period. So, economist base their models on the short-run, medium run or long-run, the difference in these time frames is the ability to change the factors of production. For example, in the short-run, is impossible set up a new factory, but its more plausible to hire a new worker. It shows that in a period, the current output can change only so much. While in the long-run, you can make many more changes.

Short-Run Analysis –The short-Run is the period in which at least one factor of production is considered fixed. Usually, capital is considered constant in the short-run.

Theory X and Theory Y

Theory X and Theory Y are theories of human work motivation and management. They were created by Douglas McGregor while he was working at the MIT Sloan School of Management in the 1950s, and developed further in the 1960s. McGregor's works was rooted in motivation theory alongside the works of Abraham Maslow, who created the hierarchy of needs. The two theories proposed by McGregor described contracting models of workforce motivation applied by managers in human resources management, organizational behaviors, organizational communication and organizational development. Theory X explains the important of heightened supervision, external rewards, and penalties while theory Y highlights the motivating role of job satisfaction and encourages workers to approach task without direct supervision.

Management use of theory X and theory Y can affect employee motivation and productivity in different ways, and managers may choose to implement strategies from both theories into their practices.

Theory of Government Intervention

Government Intervention is any action carried out by the government or public entity that affects the market economy with the direct objective of having an impact in the economy, beyond the mere regulation of contract and provision of public goods.

Government Intervention advocates defend the use of different economic policies in order to compensate the flows of the economics system that give way to large economic imbalances. They believe the law of Demand and Supply is not sufficient in order to ensure economic equilibriums and government intervention should be used to assure a correct functioning of the economy. Examples of these economics doctrines include Keynesianism and its branches such as New Keynesian Economics which relay heavily in fiscal and monetary policies and Monetarism which have more confidence in monetary policies as they believe fiscal policies will have a negative effect in the long run. On the other hand, there are other economics schools that believe that government should not have an active role in the economy, and therefore should limits its interventions as they believe it will have a negative impact in the economy. They believe that the economy should be left to run in a laissez-faire way and it will find its optimal equilibrium.

Advocates of none or limited intervention include liberalism, the Austrian School and New Classical Macroeconomics.

As in most imperfect competition markets and especially in monopolistic ones, a firm may practice an abusive behavior, which will translate into a loss of welfare. In such cases, government intervention will be praised both by consumers and those firms that seek for lower prices and a profitable share of the market. Regulation such as price setting, taxation or subsidies may be used in order to restore and maximize the initial efficiency of natural monopolies.

Nevertheless, the government must be cautions when setting and applying regulations, as an incorrect comprehension of the market structure may bring a higher cost to social welfare instead of the expected benefits. In order to achieve an optimal regulation level, government should analyze and determine if natural monopolies can be sustained whenever they ensure a lower total cost. If this is the case, the government will have to guarantee that the firm does not make excessive revenues, and that fair prices are maintained. If, on the contrary, the total costs of the industry would diminish if new firms entered the market, the government should regulate their entrance. Essentially, what governments should do is correctly balance the conflict between the industry's efficiency and its profitability.

Prospects and Challenges of the Nigerian Automobile Industry

Emezuru (2015) the following findings with regards to the prospect of the automobile industry can be achieved:

i. Conservation of foreign exchange reserve;
ii. Large employment generation;
iii. Acquisition of technical know-how; and
iv. Effective utilization of local raw materials and resources. While findings with regards to challenges in the industry include:
v. Poor Implementation of Policies: Policies are the base for the establishment of a vibrant automobile industry in Nigeria. In 1994, a Federal Government Policy was passed to protect and patronize the existing automobile industry in the country that was gazette, (No. 28 of 1994) which says "government at all levels and their agencies, must source all their vehicles from within the country, except where such automobile are not available locally" this law has been neglected, even by the government itself. Hence the automobile companies in Nigeria still suffer lack of patronage.
vi. Indigent Leadership: For several years back, the Federal Government did not show enough interest in the development of technological skills of her citizens. Every successive administration relied only on the country's Crude oil, believing that the country stands not to face any economic hardship, hence, many past leaders misappropriated the nation fund rather than capitalizing on investing the money on local industries which would enhance production and create employment for the teaming unemployed citizens.
vii. Altitudinous Tariff: High tariff placed on the purchase of brand new cars in the country has made the price of new cars very costly, such that it is difficult for an average Nigerian to buy cars of their choice. This boils down to cost of production that is facing the automobile industry in Nigeria. Other nations like India, Russia implement interest rate reduction on loan for car purchase for their citizens, to the tune of 5% on car purchase. This is to encourage the local industries by indirectly reducing taxes for part of the automobile industries.
viii. Deficient Economy: The poor economy in the country played a role in the hike in price and maintenance of cars in Nigeria. To own a car in Nigeria is still regarded as luxury because once one acquires a car, it means that poverty has been eradicated from the family, and it is celebrated like the birth of a new born child. Not like it's a new that is being referred to, nut a fairly used car (Tokumbo) which is purchased from countries like Benin Republic. The poor economy of the nation is the cause of all this, but because the life of the citizen are affected by the economy of the country, a brand new car is no longer affordable and this affects the success of the automobile industries in the country.
ix. Insufficient Fund: the cost of running any industry in Nigeria is a sole proprietorship by the owners of the companies. The scheme to support and encourage the existing companies has not been put in place by the government through creation of a conducive environment and enact policies that would bolster their operations, but it would rather device means to share the profits of the company by yearly tax increment as a way of paying for their existence in the country. The Federal Government of Nigeria has not been responsive to funding automobile industry in the country: lack of fund is affecting most automobile industries.
x. Inefficient Power Supply: The major source of power for every industry is electricity, and stagnation of the industry in terms of improvement and development is due to lack of electricity. Consistent electricity in developed countries is the key to the survival of most of their auto industries. Using fuel to power the plants during production and cost of maintenance affects the financial state of most automobile industries in Nigeria that is resulting to low production.
xi. Deficiency of Integrated Plans: Non interest in the development of the local content pioneered the failure of the industry. The development of local content will depend on the following:

a. An automobile industry with adequate sales of at least 5,000 units per model

b. An accessibility of needed raw material locally: there are iron and steel, plastics, ealstomers, aluminum and other non-ferrous metals.

c. The handiness of other engineering infrastructure like forge and foundry shops, precision machine shops, heat treatment facilities.

d. Centres to test the quality of automobile safety parts undertake vehicles ratification and assist in Research and Development (R&D).

e. The establishment of a local content development program with the industry and providing appropriate incentives.

f. Charging import dusty 35% on automobile component that are locally produced at competitive prices and of good quality.

Africa's Next Automotive Hub –Reality Check

One year after the Federal Government introduced the Nigerian Automotive Industry Development Plan (NAIDP) in 2013. Price Water House Coopers (PWC) developed scenarios with objective to capture the potentials effects of the policy and identified Nigeria as future automotive hut drivers by its large economy, population and government's intent to revive the industry.

However, the following findings are made:

i. The current economic climate at that time was quite challenging for businesses as there was decline in global oil prices and significant production shortages in the second quarter of 2016 which put immense pressure on government revenues and foreign reserves. Nigeria was officially in recession following negative growth of -0.4% and -2.1% in the first and second quarters respectively. Consequently, the general and automotive manufacturing industries were worst hit with growth at -7% in the first quarter of 2016.
ii. The new tariff regime coupled with the depreciation of the Naira has led to prices of vehicles doubling between 2014 and 2016 resulting in over a 60% decrease in vehicles sales.
iii. With the introduction of NAIDP, there was increased activity in local vehicle assembly. The NADDC granted thirty five (35) companies licenses to assemble/produce vehicles. However, despite the increased number of local vehicle assemblers, production has dropped by half due to the economic situation.

The following recommendations were however made:

i. Continued policy support – it is essential that government continues to implement and enforce protectionist policies to enable the growth of the industry.
ii. Improved chances of owing a car – favourable vehicle financing option are important in encouraging patronage of locally assembled vehicles.
iii. Tightening the borders – it is vital that investment and progress made by local assemblers be protected, unchecked smuggling activities could frustrate their effort.
iv. Setting up auxiliary industries – the difficulty of getting forex and the depreciating currency are challenges currently faced by assembly plants. An existing auxiliary industry with capacity to generate parts such as batteries, belts, windscreens and tyresetc will serve as a hedge against foreign exchange fluctuations.
v. Building Human Capital – it is essential that Nigeria is able to provide the manpower needed to fill operational roles which require in-depth technical expertise. The NADDC plans to drive local content within the industry, set-up skill acquisition centers and make inputs into the curriculum for engineering in training institutions

V. Methodology

The paper adopted a singular source of data collection. The secondary source of data generation, which include the use of textbooks written by different authors on the subject matter, journals, magazines, information from the internet and other published and unpublished materials relevant to this work. The data was analyzed using the content analysis approach. This is because of its major dependence on the secondary source data.

VI. Conclusion

In conclusion, it can be seen from the outcomes of the test of hypotheses that – as the government implement the auto industry policies a relative growth and development is witnessed in the sector. Similarly, as the myriad of problems of the sector are being solved the various automobile assembly plants began to operate more effectively now. However, more efforts need to be put in place by the NADDC to ensure full implementation of all government policies aimed to better the development of automotive industry in Nigeria.

VII. Recommendations

At the end of this research some key areas were identified which need to be addressed as a matter of priority in order for the automotive industry in Nigeria to fully developed like in other developed countries in the world. Hence the following recommendations are proffered:

(i) Continued Policy Support – It is strongly recommended that the Federal Government through its agency, NADDC continues to implement and enforce policies that are aimed to protect the industry to ensure steady growth and development.

(ii) Improved Chances of Owing a Car – Steady income levels and increasing inflation has led to a full in disposable income of Nigerians. In view of rising prices of vehicles, many Nigerians are unable to afford a car without some forms of financial support. Thereforefavourable vehicle financing options are recommended in order to encourage patronage of locally assembled vehicles.

(iii) It is also recommended that the following be strengthen in order to mitigate the factors that militate against the growth of automobile companies in Nigeria:

a. Tightening our Border – It is recommended that the Federal Government should continue to close our borders for a more longer time with a view to checkmate the various smuggling activities across our borders. Therefore all the investment and progress recorded by the local automobile assemblers can be protected.
b. Setting up auxillary industries – It is strongly recommended that more auxillary industries with capacity to produce parts such as batteries, tyres, windscreen, belts, bulbs, etc be set up to serve as a hedge against foreign exchange fluctuations.
c. Building human capital – In order to drive local content within the industry, it is recommended that NADDC set-up more skill acquisition centres and makes inputs into the curriculum for engineering in tertiary institutions.

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