

Can South Africa help Nigeria to industrialise?

Dianna Games *

Nigeria and South Africa are committed to working together to build Africa's industrial base and will play a valuable role in ensuring value is added to the continent's natural resources. South Africa's Trade and Industry Minister Rob Davies was confident in this assertion made at a business forum in 2013 during the state visit of President Goodluck Jonathan to his southern counterpart.

Davies, at the same function, announced that Africa's two biggest economies were in the process of negotiating an automotive sector agreement that would see South Africa providing technical support and information to assist Nigeria in its goal of making the automotive sector a key underpinning of a new industrial future.

The collaboration between the countries signals a new approach to economic co-operation that may help to offset concerns about the fact that the bilateral trade basket is effectively weighted in South Africa's favour. Although Nigeria's exports to Pretoria are much higher than its imports from there, this trade is made up almost entirely of one commodity - crude oil - while South Africa's is highly diversified.

The trade situation is partly a consequence of the economic evolution of the two countries. South Africa's private sector is diversified and competitive and its well-resourced multinationals with world class supply chains have expanded across the continent since the end of apartheid in 1994 looking for new markets to offset low growth, market saturation and increasing competition at home.

The fact that South Africa's relatively sophisticated and structured economy is difficult for other Africans to penetrate has led to a perception that it has built trade barriers to keep out Nigerians and other foreigners. While this perception informs political sentiment, it negates economic and market realities.

Nigeria remains dependent on the oil sector as a driver of revenue, growth and exports. Despite recent growth in non-traditional sectors, its companies are taking time to build themselves up in an economy that is expensive, challenging and unsupported by government policy and long-term capital. They have also been relatively slow to expand outside the country, particularly given the demand for goods and services on their own doorstep. Those that have done so have mostly confined this expansion to nearby markets in West Africa and have shown little appetite for Southern Africa.

Rather than trying to create market demand simply to balance the trade books, there is, arguably, more value in promoting the industrialisation of Nigeria through co-operation with South Africa. Although South Africa itself is looking at ways to boost its own local beneficiation, it is the most industrialised country in Africa. In 2012, the manufacturing sector accounted for 15.4% of GDP according to Stats SA. Although Europe, Japan and the US are the main markets for its finished products, Africa is a rapidly growing market for its own manufacturers. Nigeria is South Africa's biggest trading partner in West Africa but the regional giant still uses revenues from the export of raw materials to import finished goods from other countries.

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This is what Abuja wants to change. Nigeria's Trade and Investment Minister Olusegun Aganga often repeats the business wisdom that no country has moved from being a poor nation to a rich one by exporting raw materials.

New possibilities, natural synergies

The determination of Nigeria's president and economic team to find solutions to the lack of industrialisation in the country opens new possibilities for strategic co-operation with South Africa, which is already a large investor in non-traditional sectors such as telecommunications, agriculture, financial services, property development and hospitality.

There is a natural synergy between the nations, given that they account for more than 50% of the total GDP of Sub-Saharan Africa and are the economic hubs of their respective regions.

Nigeria's drive to diversify and strengthen the economy has gained traction with the move to rebase its GDP, last officially measured in 1990, to more accurately reflect its current size and structure. This is likely to increase it by more than 40% given the significant changes in economic output since the military era of the 1990s, according to analysts.

But a higher GDP figure will not create the broad-based, inclusive economy that Nigeria needs to address its significant challenges, which include an extremely weak manufacturing base.

There have been attempts to stimulate local production, most notably through the imposition of the Import Prohibition List in 2003. But despite some success, this has also had unintended consequences, keeping investors in affected sectors out of the country and increasing smuggling, which has had a negative effect on government trade revenues.

South Africa, with its much longer industrial history and its diversified export profile, has valuable experience to impart to its African counterpart. Although the Nigerian government is emphasising the value addition to raw materials as the backbone of its industrial strategy, South Africa can also add value in other areas. These include local manufacture of non-agricultural consumer goods, packaging for the growing consumer sector and vehicle assembly. The latter is where Aganga is currently focusing his energies.

The motor sector

South Africa's motor industry has benefited from strong government policy support. Under the Motor Industry Development Programme, it doubled in size between 1994 and 2010. Its successor, the Automotive Production and Development Programme, which will be implemented from 2014, aims to ramp up production while increasing local content.

Global car manufacturers have long had a presence in South Africa. BMW, Ford (incorporating Mazda), General Motors, Mercedes Benz, Nissan, Renault, Toyota and Volkswagen have production plants in South Africa, while international component manufacturers are also established in the country.

The sector contributes at least 6% to GDP, accounts for almost 12% of manufacturing exports and employs nearly 30,000 people directly with another 250,000 employed in the component manufacturing industry and in retail and aftermarket activities, according to Brand South Africa.

Two manufacturers that have attracted the interest of the Nigerian government are Toyota and Nissan, which are among the biggest

exporters of vehicles to the region from South Africa. There have been discussions between the companies and Nigerian officials about the possibility of establishing production plants in Nigeria in return for some sort of guarantee for preferential market access for parts and other inputs.

Nigeria's automotive industry is in the doldrums. Attempts to build a car industry have been blighted by a range of factors including low domestic patronage because of the poor perception of locally made goods, very low capacity utilisation, a high-cost operating environment, insufficient government policy protection, uneven tariff application on imports and smuggling.

But the government has now released a new policy to boost manufacturing investment in the sector that aims to improve the quality of local production and boost domestic demand by hiking the cost of imported cars through high tariffs and levies.

Already, Nissan, in its alliance with France's Renault, is looking at starting vehicle assembly for semi knocked down kits with its exclusive Nigerian distributor, the Stallion Group. If this is successful, they may look at making Nigeria a manufacturing hub down the line.

But in other sectors, South African companies have been building capacity in other sectors. For example, packaging giant Nampak has expanded its Nigerian business and acquired Nigerian beverage can business Alucan in late 2013. Consumer facing companies such as Tiger Brands have invested in local food manufacturers and many other companies have contributed to the development of the economy by boosting investment and efficiency in non-traditional sectors of the economy as part of a strategic and long-term commitment to the country.

A bilateral free-trade area

There has been some discussion about the possible benefits of a bilateral free trade area. South African trade expert Peter Draper says this could bring substantial economic benefits to both sides in terms of exports, investment, greater competitiveness of goods and services and productivity. But he cautions that in the short term, the benefits would accrue to the South Africans who already export many finished goods to Nigeria. Without a phased programme of strict safeguards and local content provisions, this plan could undermine, rather than boost, the development of Nigeria's emerging industrial base.

Despite significant improvements, Nigeria's operating environment remains challenging. Although power sector reform is under way, lack of reliable electricity as well as water and other services traditionally supplied by municipalities in other countries, is an issue for manufacturers. Other challenges include high operational and finance costs, inefficient supply chains, infrastructure deficits and inefficient and often corrupt government agencies and bureaucracy.

As useful as sectoral policy intervention may be for the car industry and even other sectors identified in time as growth drivers in Nigeria, the solutions to the problem of industrialisation in Nigeria lie not only in sector specific policy measures but in the overall improvement of the operating environment.

It is also important for South Africans to look at how they can benefit from boosting Nigeria's economy, not through exports of finished goods but from partnerships, joint ventures and building capacity for export into the wider West African region – a huge untapped market.

There is also the question of building greater trust between nationals of both countries, a challenge that still plagues this bilateral relationship. The countries' different economic priorities and objectives may be an issue in the pursuit of building the co-operation so beloved of the politicians. But if handled effectively, it should be a win-win situation for both countries.

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This policy brief forms part of a SAFPI series, all written by Dianna Games, which examines key issues in South Africa and Nigeria's bilateral relationship.

- [SAFPI Policy Brief 44: Nigeria-South Africa baseline study](#)
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 - [SAFPI Policy Brief 53: Citizen to citizen - challenges and solutions](#)
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