

The automotive industry in Africa: domestic production for local job creation and safe, climate-friendly mobility

The automotive business is a key industry in Germany and throughout Europe: it generates 7 per cent of the EU's total GDP, accounts for 6.1 per cent of all EU jobs, and is an important driver of innovation and growth. In this period of upheaval, producers and suppliers are facing numerous challenges. Innovative solutions are called for, as is the development of new markets. The African continent is regarded as the final frontier for the automotive industry. The sale of new vehicles in Africa can not only secure German and European jobs – it also has the potential to become a key driver of industrialisation, economic growth, and local job creation on Europe's neighbouring continent. **The vision of large-scale automobile production on the African continent can become reality – if government and industry work together.**

The case for an automotive industry in Africa: advantages for both continents

Africa's motorisation rate of 42 vehicles per 1,000 people is far below the global average of 180 vehicles per 1,000 people.¹ At the same time, imported used cars dominate African markets, mainly due to limited disposable incomes, lack of high-quality after-sales service, poor-quality fuels, and relatively high costs for new vehicles.² However, the demand for mobility solutions is growing strongly. In Kenya, for example, the number of people who own a vehicle is now growing faster than the population. It is therefore in the interest of Europe and Germany that Africa's roads are no longer dominated by old used cars, but that modern, environmentally and economically viable vehicles become available in African markets. This will secure jobs and tax revenues in lead plants in Germany and Europe, and will create jobs in Africa while promoting sustainable industrialisation, which will have positive climate policy consequences for everyone.

How to integrate African markets in global automotive value chains

The ASEAN region has shown that an intelligent, multi-track strategy consisting of market access policies, reasonable tariffs, training measures, and fiscal and financial incentives can create an ecosystem for vehicle manufacturing within a few years. Morocco, too, has successfully managed to attract not only original equipment manufacturers (OEMs), but also ancillary industries, thanks to its proximity to European markets and a favourable trade regime. These success stories can be repeated in sub-Saharan Africa.

1. The "Pan-African Auto Pact": advantages for Germany, the EU, and the AU

Both manufacturers and suppliers of cars, trucks, buses, and off-road vehicles need economies of scale in order to sustainably establish local production units with significant added value on site. Accordingly, **regional market integration is key to successfully creating ecosystems for vehicle production**, starting with the regional trading blocks of the ECOWAS, SADC, EAC, and COMESA. The automotive industry and its production potential should also play a central role in discussions on the African Continental Free Trade Area (AfCFTA).

In the medium to long term, a Pan-African Auto Pact could help link Africa's regional economic communities with the production and value-added steps that are spread across individual member states – and thus create jobs in a large number of countries in Africa while simultaneously securing jobs in Germany and Europe. This would require the right cooperation framework between the EU and the AU, as well as their member states, starting with countries such as South Africa, Ghana, Kenya, and Ethiopia, with more being added over time.

¹ In Germany, there are 702 motor vehicles per 1,000 people; 575 of these are cars. Source: German Federal Motor Transport Authority, March 2020.

² In sub-Saharan Africa, eight out of ten imported vehicles are used cars from Asia, Europe, or the United States.

Germany, the EU, and the AU should promote coherent automotive strategies within Africa and in bilateral and multilateral exchange.

- Germany and the EU should promote the integration of African companies into global value chains and build up the necessary infrastructure to support this. Supporting measures in the form of education and training are also appropriate in this context.
- The EU and the AU should press ahead with regulatory alignment on technical standards and issues such as fuel quality, safety inspections, insurance, and homologation in order to create an interesting market for the automotive industry.

2. Promoting green technologies and sustainable mobility

Africa has already demonstrated its potential for leapfrogging technologies many times over, such as in the use of mobile telephony or digital banking. The use of environmentally friendly vehicles could be the next example if Africa's immense resources are harnessed for renewable energies. There are already successful pilot projects in this field in Rwanda and South Africa. In addition, numerous e-mobility start-ups are emerging all across the continent.

Political support is needed for a successful transition to clean mobility:

- In cooperation with policymakers, the automotive industry can be a **catalyst for sustainable mobility and alternative fuels**. This requires programs to support the use of e-fuels, flex-fuels, and battery-electric and fuel-cell powertrains.
- **Access to finance** remains essential, both for investment and consumption. As such, **African end-consumers should be supported with appropriate financing options for environmentally friendly mobility** (e.g., fuel-efficient vehicles).
- The **unregulated importation of used cars in many African countries should be significantly restricted by African governments**, not only to develop the local market, but also to reduce environmental pollution and electronic waste. Some countries have already imposed **import restrictions on (old) used cars**, including Ghana, Côte d'Ivoire, South Africa, and Morocco. Other countries should follow their example. At the same time, however, **negative impacts on consumers need to be offset**. Mobility as a service or income-adjusted financing solutions are viable options in this context. Here too, advisory services from Germany and the EU are in demand.
- To improve the **road safety of vehicles**, an **EU-funded incentive system** could help to get end-of-life vehicles off the road. Similarly, **systems for safety inspections** could be implemented – an area in which Europe has outstanding expertise.
- At the same time, **circular economy** models need to be promoted to reintegrate electronic waste into value chains. There are already initial approaches to this, but these should be intensified and supplemented by further European-African industrial partnerships.

3. African countries as procurement partners

Thanks to their large deposits of copper, platinum, cobalt, bauxite, and lithium, several African countries are important procurement markets for the raw materials that are indispensable for the automotive industry. Industry initiatives such as Drive Sustainability and the Global Battery Alliance are already aiming to **make the procurement process sustainable**. However, industry partnerships have their limits under competition law. This is **why governments and supranational organisations also need to drive the process forward**.

- **The relocation of production steps along the value chains** of OEMs and tier X suppliers (along the entire supply chain) to African countries can have an immense effect on industrialisation while contributing to prosperity gains – if local companies are involved and value is created on site. This needs to be reflected in European-African industrial policy.

Conclusion:

With the **first German-African Automotive Forum** in February 2020, the German-African Business Association has established a platform for the German automotive industry and important African partners. This **exchange needs to be continued and intensified**. Together with partners such as the Association of African Automotive Manufacturers (AAAM), the German Association of the Automotive Industry (Verband der Automobilindustrie, VDA), and initiatives like the Pan-African Mobility Alliance, initiated by the German Federal Ministry of Economic Cooperation and Development (BMZ), the mission is clear: **additional stakeholders from the private sector need to be won over for the development of the automotive industry in Africa. Governments also need to provide support with the appropriate frameworks and financing solutions**. These efforts will be worth the goals: **leveraging the potential of the automotive industry in Africa, promoting sustainable mobility solutions and, not least, creating and safeguarding jobs in Africa and Europe**.