VI. PAKISTAN [*]

A. Introduction

The auto market is one of the largest segments in world trade. The annual size of automotive export trade in the world has grown to a massive level of over US$ 600 billion, which accounts for about 10 per cent of the world export. Changing models, improving fuel efficiency, cutting costs and enhancing user comfort without compromising quality are the most important challenges of the auto industry in a fast globalizing world. Hence there is a need for exploring the industrial complementarities in the region for better quality, favourable costs, fuel efficiency and attractive designs. Therefore, the requirement of information exchange in the region is much more pronounced now than ever before for keeping the auto industry afloat and competitive. The objective should not be only to understand each other's comparative advantage but also to explore mutual complementarities as well as to build an early warning system on the trends in industry and changes in user preference to brace for the challenges confronting the auto industry. Mutual consultation among the countries of the region therefore assumes the proportion of an abiding imperative for regional capacity-building and preparing the countries to meet the requirements of the new economy through research, advisory services, information dissemination and exchange of country experiences, besides joint ventures and technology tie-ups.

B. Country profile

1. Geography

The land mass constituting Pakistan has always been in the limelight of history because of its distinguished geography. Linked to the mighty Indian Ocean through the Arabian Sea and situated in close proximity to the Persian Gulf, the country provides a strategic link to the Middle East in the west, Central Asia in the north, China in the east and India in the south-east. With the ninth largest population in the world, the country has a sizeable market of 140 million people. Its hard core workforce consists of over 40 million people, both men and women. The literacy rate is 52 per cent with 68 universities and 1,164 colleges.

2. Climate

The country comprises a land mass of 796,095 sq km, with one of the world's highest mountains, such as K-2, in the north, to vast deserts in the south, with arable plains in the middle irrigated by five famous river systems of the great Indus Valley. Four seasons, namely winter, summer, spring and autumn, are among the greatest natural endowments of the country. The climate of the country therefore offers an interesting diversity of temperatures ranging from sub-zero levels on the mountains in the winter to scorching heat in the plains in the summer.

3. Infrastructure

The country's infrastructure is fairly well developed, comprising an elaborate cross-country railways network, extensive road linkages reinforced by motorways and highways,

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seaports, airports and dry ports. A fully developed export processing zone has been operating in Karachi since the early 1980s. Three new export processing zones are being established in Sialkot, Risalpur and Saindak. There are 72 industrial estates and three special industrial zones in the country.

Table 6.1. Infrastructure availability

Railways	7 791 km
Roads	249 959 km
Motorways	✧ M-I, Islamabad – Peshawar Motorway ✧ Expected date of completion – 154 km (December 2002). ✧ M-2 Islamabad – Lahore Motorway 365 km long (completed).
Seaports	Karachi Port and Port Qasim.
International Airports	Karachi, Lahore, Islamabad, Peshawar, Quetta and Faisalabad.
Dryports	Lahore, Sialkot, Rawalpindi, Multan, Peshawar, Quetta, Hyderabad, Faisalabad and Larkana.

Source: Pakistan Economic Survey 2000-01.

Pakistan's communication system is also reliable. This has now fully graduated into the e-mail, Internet and IT culture perse. The country is fast exploring the brave new world of information technology and keenly assimilating the requirements of e-government and e-commerce. Information technology has opened a new business frontier for Pakistan. The Government is assigning high priority to information technology both in terms of policy limelight and resource allocation.

4. Development performance

Since its independence in 1947, Pakistan has been able to transform itself to a large extent, from a completely agrarian economy to a fairly developed techno-industrial base. Besides textiles, Pakistan's exports are largely manufactured items such as consumer durables and engineering products. However, it is also a fact that Pakistan has not been able to realize its potential due to internal and external compulsions and thus it lags behind many developing countries of the world.

The following economic indicators constitute the tell-tale of Pakistan's development performance:

Table 6.2. Pakistan's economy at a glance

Description	1998-1999	1999-2000	2000-2001
GDP (Billion US$)	58	64	66
GDP growth	4.2%	3. 9%	2.6%
National savings (% GDP)	11.4%	13.7%	12.7%
National investment (% GDP)	15.6%	15.6%	14.7%
Inflation	5.7%	3.6%	4.4%
Exports (million US$)	7 779	8 569	9 202
Imports (million US$)	9 432	10 309	1 729
Trade balance (million US$)	-1 653	-1 740	-1 527
Foreign direct investment (million US$)	376	470	322
Per capita income (US$)	438	446	429

Source: Pakistan Economic Survey.

Table 6.3. Sectoral share in GDP
(percentage)

		1989-1990	1999-2000	2000-2001
1.	**COMMODITY SECTOR**	51.4	50.6	49.7
	a. Agriculture	25.8	26.0	24.7
	b. Manufacturing	17.6	16.7	17.4
	c. Mining and quarrying	0.5	0.5	0.5
	d. Construction	4.1	3.5	3.4
	e. Electricity & gas distribution	3.3	4.1	3.9
2.	**SERVICE SECTORS**	48.6	49.4	50.3
	a. Wholesale & retail trade	15.0	14.5	15.2
	b. Transport, storage and communication	10.2	10.1	10.4
	c. Finance and insurance	2.6	2.5	2.6
	d. Miscellaneous	21.6	21.6	22.1

Source: Pakistan Economic Survey.

C. Current auto market: status and prospects

The existing population of automotive vehicles in Pakistan is 3.9 million. The annual demand is estimated at 300,000, two thirds of which is being met from local sources and imports and the remaining one third is left unmet. The market value of automotive vehicles in dollar terms is estimated at more than 1 billion, out of which import constitutes around US$ 200 million. The after market of auto parts is estimated at US$ 500 million, imports and local production taken together. Production figures of automobiles are given in the following tables:

Table 6.4. Production of automobiles
(unit)

Description	Installed capacity (per annum)	Production 1998-1999	Production 1999-2000	Production 2000-2001
Motorcycles	340 000	87 504	97 624	108 500
Cars	106 000	47 383	31 514	39 573
LCVs	28 000	8 701	7 394	7 424
Trucks	12 500	1 131	1 313	912
Buses	1900	1220	1159	1326
Tractors	33 000	26 644	34 907	31 955
Total	**521 400**	**174 482**	**173 910**	**189 689**

Source: Pakistan Automotive Manufacturers Association.

Table 6.5. Market share of Japanese brands being assembled in Pakistan

Cars	Motorcycles	Trucks/Buses	Tractors	LCVs
90%	90%	100%	0%	50%
Suzuki	Honda	Nissan		Suzuki
Toyota	Yamaha	Hino		Toyota
Honda	Suzuki	Mazda		
Nissan	-			
Daihatsu	-			

Source: Pakistan Automotive Manufacturers Association.

Table 6.6. Market share of non-Japanese brands being assembled in Pakistan

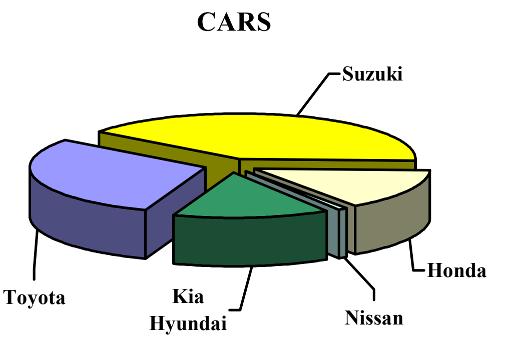
Cars	Motorcycles	Trucks/Buses	Tractors	LCVs
10%	10%	0%	100%	50%
Hyundai	Chinese	Volvo (Presently not operational)	Massey Ferguson	Hyundai
Kia			Fiat	
Fiat				

Source: Pakistan Automotive Manufacturers Association.

The demand in the auto sector in Pakistan is skewed towards small cars. Due to this trend Pak Suzuki Motors enjoys a monopoly in the small-car market.

Table 6.7. Market share of cars

Cars:	
Suzuki (Pak Suzuki Co.)	40.2%
Toyota (Indus Motors)	29.8%
Honda (Honda Atlas)	14.7%
Kia – Hyundai (Dewan Farooq Motors)	14.5%
Nissan (Ghandhara Nissan)	0.8%

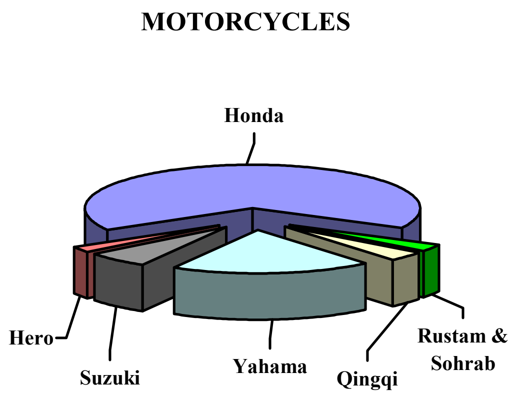


Source: Pakistan Automotive Manufacturers Association.

In the motorcycle market Atlas Honda has a major share of approximately 66 per cent. The company has an installed capacity of 100,000 motorcycles per annum. Yamaha Motorcycle falls behind with the second largest share of 19 per cent.

Table 6.8. Market share of motorcycles

Motorcycles:	
Honda (Atlas Honda)	65.7%
Rustam & Sohrab (Chinese brands)	2.9%
Chinese brand (Saigol Qingqi)	3.7%
Yamaha (Dawood Yahama)	19.3%
Suzuki (Suzuki Motorcycle)	6.2%
Hero (Fateh Motors) (Chinese brands)	2.2%

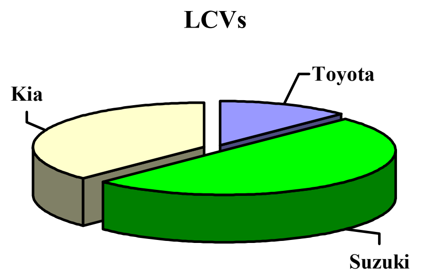


Source: Pakistan Automotive Manufacturers Association.

The market share of LCVs of Pak Suzuki Company (Bolan & Ravi) is about 43 per cent, followed by Dewan Farooq Motors (Shazore) with a share of 38 per cent.

Table 6.9. Market share of LCVs

LCVs:	
Suzuki Pick-up/Van (Pak Suzuki)	50%
Kia Pick-up (Dewan Farooq Motors)	37.5%
Toyota Hilux (Indus Motors Co.)	12.5%

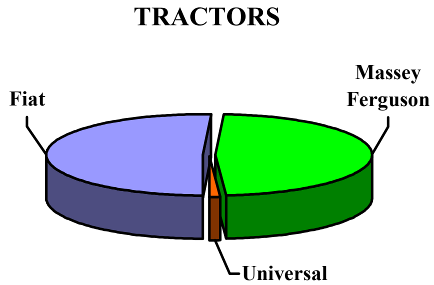


Source: Pakistan Automotive Manufacturers Association

The market share of the three major brands of tractors assembled/manufactured in Pakistan during the year 2000-01 is as follows:

Table 6.10. Market share of tractors

Tractors:	
Fiat (Al-Ghazi Tractors Ltd.)	50.9%
Massey Ferguson (Millat Tractors Ltd.)	48.1%
Universal (G.M. Tractors Ltd.)	1.0%

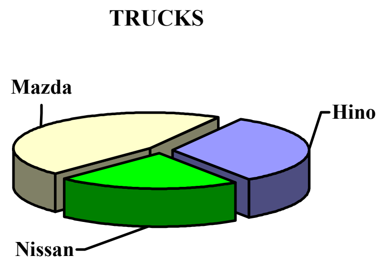


Source: Pakistan Automotive Manufacturers Association.

Mazda brand trucks enjoy major market share of 46 per cent followed by the Hino brand with a market share of 32 per cent.

Table 6.11. Market share of trucks

Trucks:	
Mazda (Sind Engineering)	46.1%
Hino (Hinopak Motors)	32.2%
Nissan (Ghandhara Nissan)	21.7%

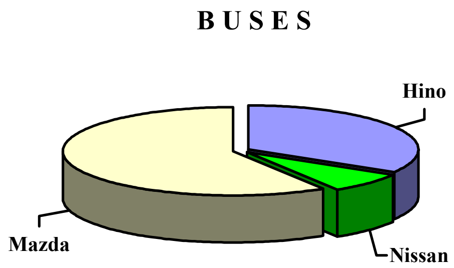


Source: Pakistan Automotive Manufacturers Association.

Mazda brand commercial buses manufactured by Messer Sind Engineering Limited captured the major market share of up to 59 per cent in the year 2000-2001, followed by Hino brand buses with the market a share of 33 per cent.

Table 6.12. Market share of buses

Buses:	
Mazda (Sind Engineering)	58.8%
Hino (Hinopak Motors)	33.5%
Nissan (Ghandhara Nissan)	7.7%



Source: Pakistan Automotive Manufacturers Association.

D. Product characteristics

As the production of automotive vehicles is based on foreign joint ventures of Japanese, Korean and European origin, the product quality is of international standard. The quality standards being followed are mainly:

i) Japan Industrial Standards (JIS).

ii) Society of Automotive Engineers, United States, (SAE).

iii) International Standards Organization (ISO).

The major automobile companies in Pakistan have been set up as joint ventures with foreign multinational companies.

Table 6.13. Joint ventures for automotive vehicles

Company	Joint venture	Product
Indus Motor Company	Toyota, Japan Daihatsu, Japan	Toyota and Daihatsu Cuore cars
Atlas Honda Ltd.	Honda, Japan	Honda cars, Honda motorcycles
Pak Suzuki .	Suzuki, Japan	Suzuki cars
Suzuki Motorcycle Pakistan Ltd.	Suzuki, Japan	Suzuki motorcycles
Ghandara Nissan	Nissan, Japan	Cars and truck
Dewan Farooq Motors Ltd.	Kia and Hyundai, Republic of Korea	Cars and LCVs
Raja Motor Co.	Fiat, Italy	Cars

Source: Pakistan Automotive Manufacturers Association.

The technical collaboration for auto-part manufacturing with foreign vendors is as under:

Table 6.14. Technical collaborations for auto parts

Components	Vendors in Pakistan	Foreign collaboration
Shock absorbers	Honda Atals Services	Showa, Japan
Radiators	Alwin Engineering Industries	UE Radiators
Car air conditioners	Sanpak	Sanden (Hoda Atlas Cars), Japan
Shock absorbers	Agriauto Industries	Kayaba, Japan
Radiators	Loads (Pvt.) Ltd.	Toyo Radiator, Japan
Radio cassette players	Automate Industries	Panasonic, Thailand
Car air conditioners	Thal Engineering	Denso, Japan
Glass	EGS Pakistan	NGS, Japan
Lamps	Techno Pack	Koito, Japan (Indus Motor Co.)
Spark plugs	Shaigan Electric & Engineering	NGK, Japan
Shock absorbers	Agriauto Industries	Kayaba, Japan
Air conditioners	Thal Engineering	Denso, Japan
Glass	NGS Pakistan	NGS, Japan
Case set steering	Polymer & Precision	I.S. Seiseki, Japan
Brake drum assy.	Alson Autos Ltd	Nissin Kogyo, Japan (Pak Suzuki Motor)
Wiring harness	• Delta Innovations • Thal Engineering	i) Yujin Electric System, Republic of Korea ii) Prime T&T, Republic of Korea iii) Furukawa, Japan

Source: Pakistan Automotive Manufacturers Association.

Table 6.15. Overview of technical collaboration in automobile industry

Category	Number of manufacturers/assemblers	Technical collaborations status
Cars	6	Japan = 4 Republic of Korea = 2 Italy = 1
LCVs	3	Japan = 2 Republic of Korea = 1
Jeeps	1	Japan = 1
Trucks and buses	4	Japan = 3 Sweden = 1
Tractors	3	United Kingdom = 1 Italy = 1 Romania = 1
2-/3-wheelers	8	Japan = 3 Italy = 1 China = 3 Pakistan (local brand) = 2
Total	**25**	**27**

Source: Pakistan Automotive Manufacturers Association.

E. Auto imports and exports

Export of automotive vehicles has been sporadic. Export of some tractors and a few thousand motorcycles now and then does not qualify the country as an exporter of automotive vehicles. But export of auto parts is registering a continuous growth over the years. The local manufacture of original equipment manufacture (OEM) parts has encouraged Pakistani vendors to enter the export market. The export destinations being Europe, the United States and Japan has enhanced the credibility of Pakistan's auto parts manufacturers.

The import and export performance of automotive vehicles and auto parts sector is given below:

Table 6.16. Total import of CKD and CBU vehicles for the years 1998-1999 to 2000-2001

Commodities	1998-1999		1999-2000		2000-2001	
	Quantity (number)	Value (thousands of US$)	Quantity (number)	Value (thousands of US$)	Quantity (number)	Value (thousands of US$)
CKD	51 290	176 051	39 044	174 277	16 251	175 657
CBU	3 553	31 860	4 753	35 067	1 716	18 013
Total	**54 843**	**207 911**	**43 797**	**209 344**	**67 967**	**193 670**

Source: Ministry of Commerce, Pakistan.

Table 6.17. Export of auto parts
(million US dollars)

1998-1999	1999-2000	2000-2001	2001-2002 (Target)
7	12	23	32

Source: Pakistan Automotive Manufacturers Association.

F. Diagnosis of production elements

Pakistan's strength of production elements lies in its vast reservoir of land, labour and even capital. But technology and purchasing power of the consumers are its major weaknesses. Technology requirements are being met by joint ventures and technology tie-ups with foreign players in automotive sector. Japanese, Korean and European entrepreneurs have invested almost US$ 1.5 billion in Pakistan's automotive sector. The local investment in the automotive sector is approximately US$ 1 billion. The following table shows the investment and manpower employment profile in the automotive sector:

Table 6.18. Investment and manpower employment

• Foreign investment	US$ 1.50 billion
• Local investment	US$ 1.00 billion
• Number of vendors	200
• Leading vendors	20
• Exporting vendors	10
• Number of jobs, in industry	140 000

Source: Pakistan Association of Automotive Parts & Accessories Manufacturers.

G. Market access factors

1. Prices and margins

The prices of locally manufactured automotive vehicles are generally less than the landed cost of imported vehicles. But these are higher than the CIF values of imported vehicles. That is one of the major reasons why the automotive industry in Pakistan has not been able to make a breakthrough in the foreign markets. In the domestic market however, the profit margins are estimated at 10 per cent to 20 per cent of return on equity (ROE) depending on the brands, manufacturing companies and consumer preference, etc.

Table 6.19. Prices of selected models of Pakistan assembled cars

Make and model	Price in Pakistan Rs.	Price in US$ (1 US$ = Pakistan Rs 61.00)
SUZUKI		
Suzuki Mehran - 800 cc	299 000	4 900
Suzuki Alto - 1000 cc	419 000	6 870
Suzuki Baleno -1300 cc	699 000	11 460
HONDA		
Honda Civic Exi-Mt -1493 cc	945 000	15 490
Honda City Exi -1300 cc	735 000	12 050
TOYOTA		
Toyota Corolla 'XE' - 1295 cc	784 000	12 850
Toyota Corolla, 2.0 Diesel	939 000	15 390
DAIHATSU		
Daihatsu Cuore - 847 cc	349 000	5 720
HYUNDAI		
Hyundai Santro -1000 cc	464 000	7 600
KIA		
Kia Classic -1300 cc	525 000	8 600
Kia Spectra	849 000	13 920
FIAT		
Fiat - 1700 cc (Diesel)	594 000	9 740
MAZDA		
Mazda T-3500 bus chassis	810 000	13 300
Mazda T-3500 cargo truck	1 045 000	17 130

Source: Pakistan Automotive Manufacturers Association.

2. Tariff and non-tariff barriers

Pakistan has dismantled all non-tariff barriers to trade except second hand automotive vehicles import of which continues to be prohibited. The general tariff regime of Pakistan comprises four slabs: 5 per cent, 10 per cent, 20 per cent and 30 per cent on all commodities except automotive vehicles, on which the tariff rates are as follows:

Table 6.20. Tariff structure for automotive sector

Vehicles	Engine capacity	Custom duty	
		CKD	CBU
Cars	• Up to 1000 cc	35%	100%
	• Above 1000, up to 1300 cc	35%	120%
	• Above 1300 cc, not exceeding 1800 cc	35%	150%
	• Above 1800 cc	35%	250%
LCVs	-	20%	60%
Trucks	-	20%	60%
Buses	-	20%	20%
Tractors	-	0%	30%
Motorcycles	-	30%	105%

Source: Central Board of Revenue.

It will be observed that whereas the tariff on CKD import of cars is 35 per cent, the tariff on CBU import of cars ranges from 100 per cent to 250 per cent depending upon engine capacity. High tariff rates on CBU imports are being maintained to protect the local car manufacturing industry.

3. Local content scheme

Pakistan has been pursuing a useful local content scheme which has done some good to the technological base of the automotive sector and improved its design development capabilities. The methodology adopted is that the manufacturers are offered tariff incentives for progressive local manufacture of automobiles and other engineering goods. Under this programme, the achieved levels of local content are as follows:

Table 6.21. Maximum local content levels achieved

Automobile	Percentage
Cars	68
Tractors	85
Motorcycles	82
LCVs	43
Buses/Trucks	50

Source: Engineering Development Board.

4. Government's investment policies

The Government has liberalized the investment policy environment for domestic as well as foreign private investment in the industrial sector. There is no upper limit on foreign equity and foreign ownership of industrial projects. There is also no restriction on remittance of profit, dividends, payment of royalty and technical fee. The Government is also encouraging joint ventures, technology tie-ups, co-manufacturing and co-exporting arrangements with foreign investors. Even relocation of projects is being encouraged in view of the transformation of developed economies into hi-tech areas. Major advantages for investment in Pakistan are as follows:

- Abundant land and natural resources
- Vast human resources
- Growing domestic market
- Well established infrastructure
- Strategic geographical location

Fundamental problems in the automotive sector are as follows:

- Low volumes / under utilization of capacity
- High prices
- Slow transfer of technology

In view of the above the government policy not only seeks to protect foreign investment but it is also looking for a break through in the export market in order to increase volumes to lower costs by achieving economies of scale.

H. Suggested measures to create a favourable atmosphere for joint ventures

Recommendation on actions to be taken at the national level

- Good governance has to be ensured and sustained to upgrade the administrative, corporate and financial structure of the country.
- Policy paradigm has to be characterized by continuity, consistency and connectivity.
- Tariff structure on auto motive sector will have to be rationalized in tandem with the requirement of phasing out local content policy under WTO Agreement on TRIMS.
- Vendor industry in Pakistan should be supported to upgrade its technologies through joint ventures and technology tie-ups.
- The annual target of automobile assembly needs to be enhanced to half a million vehicles. Annual production target of cars needs to be increased to hundred thousand vehicles. The Government and the automotive sector in Pakistan must cooperate with each other to devise ways to achieve these targets.
- There is a need to set up a specialized technical training centre to serve as a common facility for capacity-building of the automotive sector in Pakistan.

Recommendation on actions to be taken at the regional level

- A specialized framework has to be set up for promoting cooperation in the automotive sector at the regional as well as the subregional level.
- The intra-regional exchange should be instituted at all levels, social, cultural, technological, commercial, industrial and educational;
- Industrial and business exhibitions, expositions and fairs should be made more interactive by making the investors, entrepreneurs, and exporters more effectively participative in these events;
- Pakistan holds an annual Pakistan Automotive Parts Show to showcase its achievements in the field of auto part manufacturing. The regional key players may visit the fair to have a good look at Pakistan's potential. The next fair is scheduled to be held from 8 to 11 February 2002 at Karachi, Pakistan.

I. Conclusion

Self-reliance instead of self-sufficiency is the bottom line of Pakistan's industrial policy. Its direction is defined by the twin considerations of import-substitution and export-orientation. Value-addition is a national priority to improve our position on the value chain. That is why more investment is required in technology transfer.

Pakistan's investment space is vast. Imperatives of the investment continuum e.g. economic interest of the country and the financial interest of the individual investors are the key considerations. There is a kind of an organic link between the national economic interest on the one hand and the individual's financial interest on the other. Sustainability of this linkage is the key to a win-win situation. This is being achieved by completely freeing the Government from the upfront controls and regulatory overhang which it had instituted on investment over the years. Trade and industry is no more being controlled by the Government. The private sector is now in the drivers' seat. The Government is trying to put it on the high road of development. Approach is fast-track. The policy focus is shifting to the provision of the following requirements; namely:

- Adequate policy framework
- Simplified operating procedures
- Strong support mechanisms
- Easy access to capital
- Upgrading technologies
- Enhanced productivity
- Reliable quality control
- Enhanced management skills
- Well-trained manpower
- Improved marketing skills.

Thus a reliable investment environment is being developed. The strategic preference is massive change instead of marginal one. Value-addition is our national priority for increasing national wealth. This requires upgrading of technology and capacity-building in design development for improving our position on the value chain. There is therefore an immense scope of cooperation and technology tie-ups for cost-effective co-manufacturing of automotive vehicles in Pakistan for domestic and export requirements. The Asian and Pacific region's support to Pakistan's volume-starved automotive sector and nascent vendor industry manufacturing auto parts for OEM and export markets is therefore a felt need of Pakistan.