Critical Evaluation of Automobile and Transportation Industry Policies, Laws and Practices in Relation to Industrial Development in Pakistan

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Abstract:

The automobile industry in Pakistan plays a pivotal role in the country's economic development by contributing significantly to GDP, generating employment, and facilitating technological transfer. Comprising manufacturing and assembling companies involved in producing passenger cars, motorcycles, and other vehicles, the sector also includes the vital auto spare parts industry. Despite its importance, the industry faces several challenges such as outdated infrastructure, regulatory inefficiencies, and limited technological advancement. This paper provides a historical overview of Pakistan's automobile sector, highlighting key periods of development, including the nationalization era and the deregulation era, which spurred growth in production. Furthermore, the paper examines the market structure, dominated by a few major players, and explores the barriers to entry for new companies. The study concludes by emphasizing the need for a comprehensive, integrated policy framework that promotes innovation, enhances infrastructure, and encourages collaboration among stakeholders to ensure the sustainable growth of Pakistan's automobile industry.

Key words: *Automobile industry, Pakistan, GDP contribution, market structure, policy framework*

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Introduction

The automobile industry is a vibrant sector in any country and often considered as the mother of all industries and the backbone of the economy. This industry plays a pivotal role in the development of the country in terms of revenue generation, foreign exchange, employment creation, and technology transfer. This industry has a strong impact on a dozen other sectors such as steel, plastic, petrol and vending industry etc.; hence auto sales reflects an important economic indicator of the country.

The automobile industry in Pakistan includes companies engaged in the production and/ or assembling of passenger cars, light commercial vehicles, trucks, buses, tractors and motorcycles. The auto spare parts industry is an allied of the automobile industry and signify a major manufacturing sector in Pakistan.

The auto industry along with its allied industry, auto components, is one of the core industries in Pakistan. This sector contributes around 4 percent to the national GDP and around Rs. 30 billion (USD 108 million) to the national exchequer in terms of taxes and duties. It employs around 0.7 million people as a workforce.

There are currently 124 auto manufacturing facilities in the country, including 34 for 4-wheeler and 90 for 2/3-wheeler, with an investment of Rs. 92 billion and producing around 1.8 million motorcycles and 200,000 vehicles per year. The sector as a whole provides 3.5 million people with jobs and plays a key role in promoting the development of the vendor industry

Market Structure

The market structure of the automobile industry in Pakistan is quite concentrated and in economic terms, it could be best defined as 'Oligopoly' which is characterized by imperfect competition with dominance of few auto assemblers in the market.

The three key market dominating players are (1) Pak Suzuki Motor Co. Ltd, (2) Indus Motors (Toyota), and (3) Honda Atlas Motors. Pak Suzuki Motor Co. has an almost monopoly in the small car segment and faces almost no competition other than the discontinued Daihatsu Cuore, produced by Indus Motors.

The automobile industry is a highly capital-intensive requiring high investments; hence the barriers to entry are high, resulting in the presence of limited number of suppliers. The market can also be categorized as 'price-oriented'. As cars are luxury items, their demand is elastic. Any price change affects the sales of the company to a great extent.

The automotive sector has deep forward and backward linkages; 'backward linkages' in the form of reliance on some vendors for the supply of various components; and 'forward linkages' in the form of dealership networks and agents for the provision of after-sales services.

Through the Lens of History

In 1950, the then Government established the Pakistan Industrial Development Corporation (PIDC) to develop the infrastructural facilities for establishing industries, including automobiles, which the private sector was unable to undertake either because they were technologically complex, needed large capital investment or were less profitable. These steps resulted in almost 56% growth in the manufacturing sector. However, subsequently, the nationalization of industries, including automobile in 1972 retarded the growth of the industry. After deregulation, the automotive industry took off and now the industry is growing fast.

The history of auto making in Pakistan dates back to 1950s when the Kandawala Industries [later renamed as Naya Daur Motors] established its units for assembling buses and trucks and then the National Motors produced the first vehicle in 1953 at its plant in Karachi. The history of the automotive industry in Pakistan can be divided in the following four different time periods:

Developing Era—Initial Years [1950 to 1969]

Pakistan produced its first vehicle in 1953 at National Motors plant in Karachi in conjunction with General Motors which arranged facilities for the production of Vauxall cars and Bedford trucks. Ali automobiles partnered with Ford trucks and introduced many Ford vehicles. Many other companies like Allwin Engineering, Wazir Ali Engineering, Khawaja Industries, General Tyre Pakistan, Rana Tractors, Raja Auto Cars, Jaffer Industries and Mannoo Motors began operations in the country.

Nationalization Era [1970 to 1989]

The 1970s saw the nationalization of many companies. Pakistan Automobile Corporation (PACO) was formed in 1972 and many companies were bought out or merged into others.

Wazir Ali Engineering was renamed Sindh Engineering, Ali Autos became Awami Autos, Jaffer Industries to Trailer Development Corporation, Rana Tractors to Millat Tractors to name a few. In 1980 Awami Motors began manufacturing Suzuki pickups while Sindh engineering began producing Mazda Trucks. In 1982, Pak Suzuki started production of vehicles while Hinopak Motors began a joint venture with PACO in 1986 and Gandhara Nissan began production of Nissan Diesel Trucks in 1987.

Deregulation Era [1990 to 2009]

Until the early 1990s, the automobile industry was highly regulated and following deregulation, the next decade witnessed a massive boom in auto production. Suzuki Motors Corporation of Japan increased its ownership to 40% of the shares of Pak Suzuki in 1991. Indus Motors Company began production of Toyota Corollas in 1993 while Honda Atlas introduced manufacturing of Honda Civic in 1994.

From 2001 to 2007, small assemblers and bike importers began assembling replicas of the Honda CD70 bikes using the Chinese technology and collaboration. Afzal Motors began local assembly of Daewoo buses and trucks under license from Daewoo Bus, South Korea. The automotive industry contributed 16% to the manufacturing sector during 2007.

Rapid Development Era [2010 to Present]

In 2010, auto industry predicted a growing demand in Pakistan and invested over Rs 20 billion (US$ 69 million) over a decade. Motorcycle production hit a record level in 2016-17 with 2.5 million units produced in total. Auto policy 2016-21 also helped lure new automakers in the market which was historically dominated by Honda, Toyota and Suzuki and during this period, automobile industry remained second largest payer of indirect taxes after the petroleum industry.

As a result of the initiatives taken in 2016-21 policy, more than 12 automakers announced to collaborate with different companies in Pakistan; however, some projects like Kia-Lucky, Faw Al-Haj Motors, Nissan Gandhara, Hyundai Nishat motors, Changan-Master, United and Regal materialized; whereas, rest of the investments were either completely pulled off or put on hold like Renault, Volkswagen, Fiat, Zotye and Chery. The installed capacity of cars/SUVs has increased from 275,000 units per annum to 418,500 units.

Problem Statement

The automobile industry is regarded as the backbone of any economy in terms of revenue generation, foreign exchange, employment creation, and technology transfer. The industry also impacts many other sectors including steel, plastic, petrol and vending industry etc. boosting the financial activity and shaping the outlook of the economy. However, contribution of automobile industry in Pakistan is hovering around 3-4 % of GDP despite many policy interventions. It is therefore imperative to analyze the automobile and transportation industry policies, laws and practices in Pakistan to see their impact in country's industrial development

Scope

The study will analyze the historical development of automobile industry in Pakistan culminating at ADP 2016-21 and AIDEP 2021-26 as to how and how not they are contributing in industrial development in Pakistan. It will also analyze the role of different governmental entities in promoting automobile industry with possible way forward.

Due to paucity of time, however, the research will focus primarily on just automobile industry and not on other parts of the transportation industry.

Research Methodology

A Mix methods approach have been used, using both quantitative and qualitative data wherever possible. Most of the sources have been consulted online and data from different primary and secondary sources including Ministry of Industries and Production, Engineering Development Board, Board of Investment, P3A Pakistan and experts' opinion have been used in the study. Besides, different analysis tools have also been used to complete the research.

Situational Analysis

There are as many as 34 automobile producers in Pakistan (4-wheeler) at the moment (Engineering development board, 2023) but the distribution of market share is still tilted towards the major three companies. Ten (10)

automobile companies are listed on the Pakistan Stock Exchange (PSX) under the sector of 'Automobile Assemblers'. As per PSX, the total market capitalization of these 10 auto makers stands at Rs. 331,723 million.

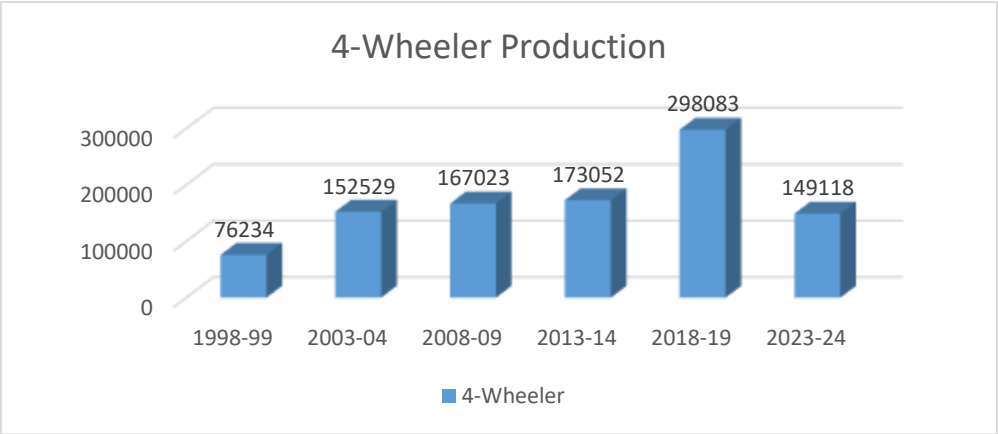
These companies are engaged in the production and assembling of passenger cars and vehicles, buses, trucks and tractors. The major automobile companies are as tabulated below:

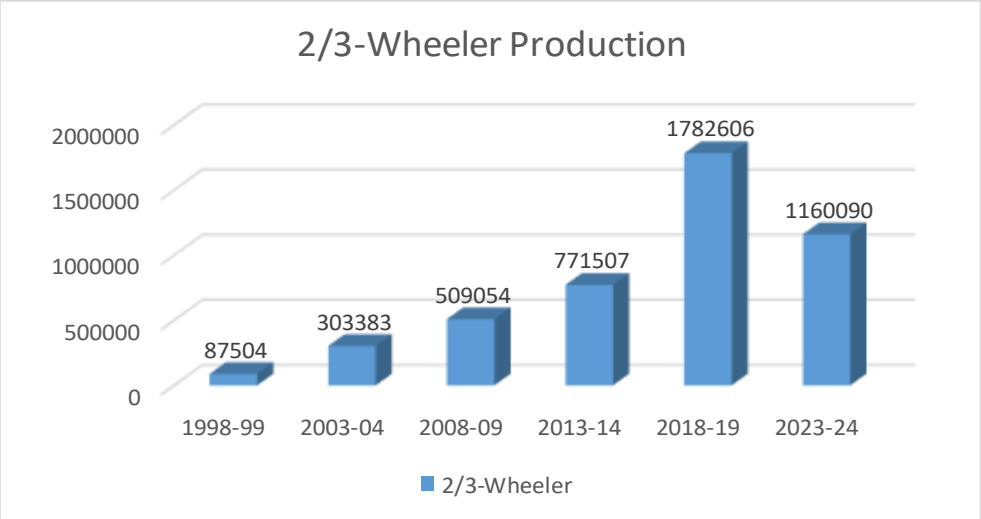
1) Al-Ghazi Tractors Limited
2) Atlas Honda Limited
3) Daewoo Pak Motors Limited
4) Dewan Farooque Motors Limited
5) Ghandhara Industries Limited
6) Ghandhara Automotives Limited
7) HinoPak Motors Limited
8) Honda Atlas Cars (Pakistan) Limited
9) Hyundai Nishat Motors Limited
10) Indus Motor Company Limited
11) Master Motor Corporation Limited
12) Millat Tractors Limited
13) Pak Suzuki Motor Company Limited
14) Sazgar Engineering Works Limited
15) Yamaha Pakistan Limited

The production capacity of the three major players of automotive sector [Suzuki, Honda and Toyota] have remained unchanged for the past several years. Only the Indus Motor company has expansion plans by investing around USD 40 million which will add around 10,000 units to its current production. There is a dire need for local automakers to significantly increase and enhance their production capacity. The historical production trend of different automobile companies and products is tabulated below:

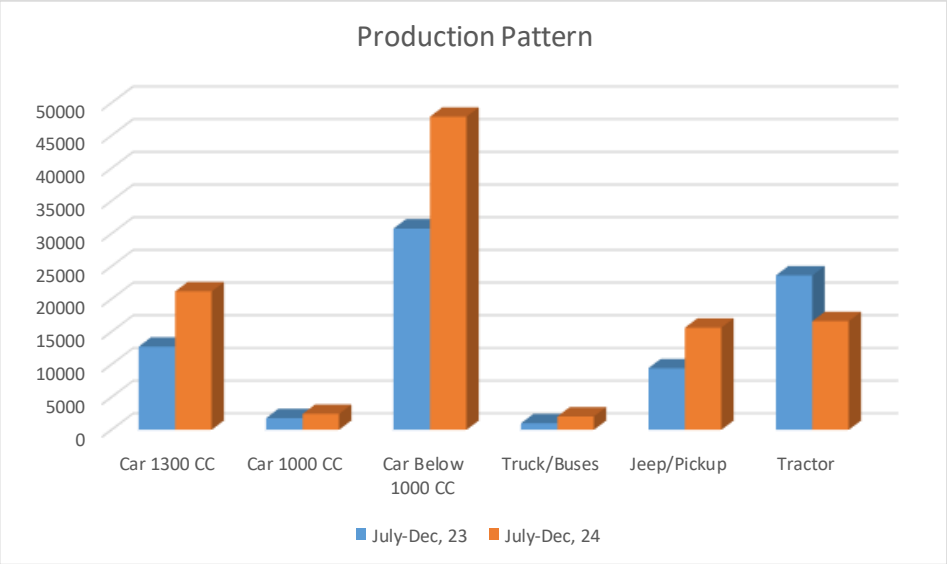
Vehicle Type	Major Companies	1998-99	2003-04	2008-09	2013-14	2018-19	2023-24
Car	Suzuki, Toyota, Honda	42927	103662	84308	116605	209255	79594
Truck	Isuzu, Master	1083	2022	4993	2674	6035	2204
Bus	Master, Hino	1124	1380	662	558	913	419
Pick up, Jeep	Sazgar, Toyota, Hyndai, Suzuki	4456	9695	17092	18694	31978	21080
Tractor	Millat, Fiat	26644	35770	59968	34521	49902	45821

Total	4-Wheeler	76234	152529	167023	173052	298083	149118
2/3 Wheel	Honda, United, Yamaha	87504	303383	509054	771507	1782606	1160090
Total	All vehicles	163738	455912	676077	944559	2080689	1309208





Period/Type	Car Above 1300 CC	Car Above 1000 CC	Car Below 1000 CC	Truck/ Buses	Jeep/ Pickup	Tractors	2/3 Wheeler
July-Dec, 23	12718	1791	30786	998	9422	23614	543773
July-Dec, 24	21172	2437	47880	2036	15623	16621	698446



Automobile Industry and National Economic Development

The transformation of an economy is contingent upon the utilization of resources in the most productive manner. Automobile Sector will operate at maximum potential when business conducive environment is created through favorable government policies. Currently domestic auto companies are protected from international competition through tariffs and tax cuts. However, the outcome of policies and performance of the sector have been unsatisfactory due to confinement to assembly of vehicles and nonexistent localization of products.

The automobile industry has not been able to contribute to the national economic development at the expected level owing to a number of issues. Although the government has been trying hard to lift the sector by giving favorable policies but even these has not been that much successful.

Legal and Institutional Framework for Automobile Industry

Automobile industry has been one of the highest protected industries in the country. In 1990s, assembly of cars started in Pakistan by Pakistan Suzuki, Honda Atlas Motors and Toyota Indus Motors, while the assembly of motorcycles, trucks, and busses started from 2001 to 2007. Being an infant industry, the assemblers were given incentives and protection in the form of tax exemptions and tariffs on the imports of cars along with barriers of entry for new companies. But the policymakers ignored the prerequisites of the protection such as dynamic externalities, potential to mature, technological innovation and spillover effects.

Auto industry in Pakistan did not undergo any research and innovation, and consequently, remained inefficient. It should have become self-sufficient in a given timeframe and the cost of protection faced by society in terms of high prices should have been compensated by price relief after achieving efficiency to ensure consumer and economic welfare. The protection without sufficient empirical analysis has proved to be futile and latent comparative advantage could not be realized as a result of overwhelming regulations, rather it kept the industry inefficient and restricted the scale of operation. In contrast, motor cycle industry flourished and prices remained stable due to removal of trade barriers and entry of multiple companies.

The automobile companies expand their scale of operation and morph assembly plants into manufacturing plants when the demand of vehicles is high and sale exceeds their specific targets. In case of Pakistan, the high cost of cars, low per capita income and myriad taxes have restricted the affordability of citizens and demand from growing. Therefore, auto companies find it more profitable to continue assembly business, governments are complacent on the revenues generated from tariffs and taxes, but consumers are at the receiving end of welfare losses.

Motor Vehicle Ordinance, 1965

The West Pakistan Motor Vehicles Ordinance, 1965, regulates the motor vehicle industry in Pakistan.

Section 33: Alteration in motor vehicle. This section requires the owner of a motor vehicle to report to the registering authority any alteration to the vehicle that changes the information on the registration certificate.

Section 45: Power of Government to control road transport. This section gives the government the power to regulate the motor transport industry. This includes setting maximum and minimum fares, prohibiting the transport of goods on certain routes, and establishing a Road Transport Corporation.

Section 105: Sale of vehicle in or alteration of vehicle to a condition contravening this Ordinance. This section makes it illegal to sell, offer to sell, deliver, or alter a motor vehicle in a way that violates Chapter IV or VI of the Ordinance or any rules stemming from those chapters. This includes the condition of the vehicle at the time of sale and any alterations that would make its use in a public place unlawful.

Pakistan Standards and Quality Control Authority (PSQCA)

The main functions of Pakistan Standards and Quality Control Authority (PSQCA) is to formulate National Standards, Conformity Assessment, Testing of products, Metrology etc. PSQCA advises the Government on standardization policies, programs and activities to promote industrial efficiency and development, as well as consumer protection.

Automobiles Division works under the Directorate of Standards in Pakistan Standards and Quality Control Authority (PSQCA). The main function of Automobiles Division is to foster and promote Standardization in the field of Automobiles (including Road Vehicles, Agricultural Tractors and Farm Machinery) in the country and to facilitate promotion of trade by assisting in the international cooperation through standardization. Automobiles Division is mandated to develop Pakistan Standards and to serve as a platform for assistance to the Government in the field of Automobiles

Pakistan Environmental Protection Act 1997

Regulation of Motor Vehicle under section 15 of Pakistan Environmental Protection Act 1997 is mandated which states that operation of a motor vehicle from which gaseous emission or noise exceeds the NEQS or other standards established by Pak-EPA, has been prohibited. To ensure compliance with the NEQS, the Pak-EPA has been empowered to direct that pollution control devices be installed in motor vehicles or fuels specified by Pak-EPA be used in them or specified maintenance or testing be carried out on them.

The Pakistan Environmental Protection Agency (Pak-EPA) was established under Section 6 (d) of the Pakistan Environmental Protection Ordinance, 1983. The Agency started with meager staff and resources. However, number of action were taken which included notification of NEQS in 1993 for municipal and liquid industrial effluents and industrial gaseous emissions, motor vehicle exhaust, and noise. The functions and responsibilities of the Agency enhanced and it was strengthened technically and logistically to meet the environmental challenges. Pak-EPA also provides technical support to the Ministry of Environment.

Introduction of Deletion Program

In 1985, Indigenization or Deletion Program was introduced in Pakistan under which an attempt was made to shift away from imported inputs for the automobile industry. This plan had to be completed by 2006 to remain compliant with World Trade Organization's (WTO) Agreement on Trade-Related Investment Measures (TRIMs) which disallowed countries to place local content requirements on the domestic manufacturing sector. Though the local automakers were heavily protected as part of the Deletion program; it was unable to achieve the required indigenization that had been envisaged.

Formation of Engineering Development Board

An 'Engineering Development Board (EDB)' was formed by the Government in 1995 with the objective to provide policy direction and formulate long-term policies for the engineering sector. The Board acted as a bridge between the Government and entrepreneurs/investors by adopting an integrated approach to achieve set goals for the overall development of all the subsectors of the engineering industry.

The Board principally agreed to remove all the TRIMs in the industry to make it more competitive and recommended a plan to phase out the deletion program by the year 2000. However, due to slow implementation, only 86 products were phased out from the purview of deletion policy between June 30, 2002 and December 31, 2003. Since then, there is no deletion program for the engineering industry.

The Board is practically non-performing owing to various reasons ranging from capacity issues to staff shortage and lack of resources and presently it is virtually acting as a policy formulation forum with little implementation mechanism. It was assigned to formulate long-term strategic engineering development plan, formulate and coordinate for all government policies related to engineering sector, promote export, enhance technical training, issue guidelines for utilization of technology and manage deletion/indigenization policy but none of the TORs have been achieved in totality.

Automotive Development Policy 2016-21

The government implemented Automotive Development Policy (ADP) in 2016 with an objective: to facilitate higher volume, more investment and better quality with the latest technology; create a balance between industrial growth and tariffs to ensure sustainability of all stakeholders; ensure consumer welfare and provide policy consistency and predictability for investors. The policy aimed at rationalizing import policy, tariff restructuring, and establishment of Pakistan Automotive Institute, financing from commercial banks and incentivized fleet operations.

The components of auto policy are illustrated in Table below:

Category	Description	Tariff Structure
Greenfield Investment	Installation of new and independent auto assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled/ manufactured in Pakistan.	• Duty-free import of plant and machinery for setting up the assembly and/ or manufacturing facility on a one- time basis. • Import of 100 vehicles of the same variant in CBU form at 50% of the prevailing duty for test marketing after the ground breaking of the project • Customs duty of 10% on non-localized parts against 32.5% for new investors and 30% for old investors. • Customs duty of 25% on localized parts against 50% for new investors and 45% for old investors. • In the CBU category, customs duty on cars up to 1,800cc engine capacity reduced by 10% for 2-years for old investors and 7-years for new investors.
Brownfield Investment	Revival of existing assembly or manufacturing plants closed or not operational before July 2013 through investment by owners or new investors or joint ventures.	• Import of non-localized parts at 10% rate of customs duty and localized parts at 25% duty for a period of 3-years for the manufacturing of Cars and LCVs. • Import of all parts (both localized and non-localized) at prevailing customs duty applicable to non-localized parts for manufacturing of trucks, buses and prime-movers for a period of 3-years.

As a result of the initiatives taken in 2016-21 policy, more than 12 automakers announced to collaborate with different companies in Pakistan; however, some projects like Kia-Lucky, Faw Al-Haj Motors, Nissan Gandhara, Hyundai Nishat motors, Changan-Master, United and Regal materialized; whereas, rest of the investments were either completely pulled off or put on hold like Renault, Volkswagen, Fiat, Zotye and Chery. The installed capacity of cars/SUVs has increased from 275,000 units per annum to 418,500 units.

The efficacy of policy can be assessed from the outcome: although few companies have entered the auto industry in Pakistan, yet the scale of operation remains confined to assembly, there was no significant increase in sales, prices of vehicles remain high and out of the reach of majority, transfer of technology did not happen and local manufacturing of vehicles is not an objective of auto companies in near future. The main components of vehicles such as engine, transmission, gearbox, axles, ignition system, clutch system, braking system and motors are still imported by the auto companies.

Under the ADP 2016-21, the Board of Investment (BOI) has been designated as the 'single point of contact for the investors with the government. Any new investor shall be required to submit a detailed business plan and relevant documents for the manufacturing of vehicles to the Board of Investment. BOI would get the Business Plan assessed by the Engineering Development Board (EDB).

Auto Industrial Development and Export Policy 2021-26

Auto Industrial Development and Export Policy AIDEP (2021-26) was continuation of earlier Auto Development Policy ADP (2016-21) to further strengthen the auto sector and provide significant support to economy of Pakistan by ensuring import substitution, export enhancement, job creation for local workforce and implementation of safety regulations. Under the AIDEP 2021-26, export targets for the auto industry were fixed as a percentage of their annual imports from 0% in the 1st year, 2% in 2nd year, 4% in 3rd year, 7% in 4th year, and reaching to 10% in the 5th year.

The AIDEP 2021-26 continued most of the incentives given to the automobile industry in ADP 2016-21 however special incentives have been given to electric and hybrid vehicles. Only 1% custom duty was levied on EV specific parts including battery, motor, converter, charger etc till the end of policy period i.e. 30 June, 2026. Similarly, customs duty on import of electric buses, trucks and prime movers in completely built condition is also fixed at 1%.

However, review of the relevant documents discloses that most of the 4 wheeler OEMs did not meet their 2% export targets for FY 2022-23 and their manufacturing licenses & annual quotas for import of CKD kits were not renewed after 30th Sept 2023. On intervention of SIFC, a further three months import authorization was issued to all imports-cum assemblers till 31st Dec 2023 on the condition that they will submit their export plans by that date. Thereafter, OEMs have obtained interim stay orders from Courts wherein interim relief was granted with direction to continue providing them import authorization including uploading of the material quota.

Court Cases pertain to SRO 656 (Mandatory Export) and SRO 693 (Localization)

S. No	Company	Case / CP No	Court	Status
1	Lucky Motors (Main case)	5047/2023	Sindh High Court	Comments submitted to SHC
2	Hyundai Nishat	79/2024	Sindh High Court	Comments submitted to SHC
3	Regal Automobiles	132/2024	Sindh High Court	Comments submitted to MOIP
4	Foton JW Auto	177/2024	Sindh High Court	Comments submitted to SHC
5	Master Changan	318/2024	Sindh High Court	Comments submitted to Law Division
6	Master Motor	381/2024	Sindh High Court	Comments submitted to Law Division
7	Sazgar Engineering	80/2024	Sindh High Court	Comments submitted to Law Division
8	Indus Motors	238/2024	Sindh High Court	Comments submitted in the SHC
9	Pak Suzuki			
10	Hino Pak			
11	Gandhara Automobiles			
12	Gandhara Industries			
13	Gandhara DF			
14	Al Haj FAW	669/2024	Sindh High	Comments submitted in the

			Court	SHC
15	Al Haj Automotive	670/2024	Sindh High Court	Comments submitted in the SHC
16	Automobile Corporation Pak	659/2024	Sindh High Court	Comments submitted to Counsel
17	Honda Atlas Car (SRO 693)	6085/2023	Sindh High Court	Comments submitted in the SHC
18	Indus Motors (SRO 693)	5737/2023	Sindh High Court	Comments submitted to SHC
19	Honda Atlas Car (SRO 693)	571/2024	Sindh High Court	Comments under preparation
20	Honda Atlas Car (SRO 693)	1946/2024	Sindh High Court	Comments submitted to Counsel
21	MG JW Automobile Pakistan	874/2024	Sindh High Court	Comments submitted in the SHC
22	Honda Atlas Car	68730/23	Lahore High Court	Comments submitted to LHC
23	Al Ghazi Tractors	4795/2024	Lahore High Court	submitted in the LHC
24	United Motors Pvt Ltd	1103/2024	Sindh High Court	Copies of petiton are awaited
25	Dysin automobiles ltd	990 / 2024	Sindh High Court	Copies of petiton are awaited
26	Orient Tractors	21397/24	Lahore High Court	Comments under preparation

The AIDEP 2021-26, while sharing a common vision with ADP 2016-21, fail to adequately address critical issues facing the auto industry such as high vehicle costs, inefficient manufacturing practices, limited technological innovation and a lack of focus on component localization. Tax cuts and higher tariffs on imported parts are unlikely to incentivize local vehicle manufacturing. Since almost all companies are in court at the moment so the policy and its intended goals are shelved at the moment.

Tax Structure

Taxation constitutes almost 40 percent of the total price of locally-manufactured cars which is also the real cause behind the high prices of cars in Pakistan. The value includes at least seven taxes and levies, viz. customs duty, additional customs duty (based on engine size), income tax, general sales tax, federal excise duty, withholding tax, and registration tax. Additionally, there are import duties and taxes on raw materials. There is withholding tax in the auto sector; some are adjustable and some non-adjustable. In addition to 18% Sales Tax, Federal Excise Duty (FED) is also imposed on the finished products. This multiple level taxation needs to be rationalized.

COMPARATIVE ANALYSIS WITH GLOBAL BEST PRACTICES

There are many success stories in the world where auto industry has developed and now holds a major share in their respective gross domestic products (GDP). We have analyzed the automobile industry of Thailand and Malaysia to see their experience of growth. The analysis will help to comprehend the policies adopted by these countries to promote domestic manufacturing of vehicles instead of confining to the assembly.

Automobile Industry of Thailand

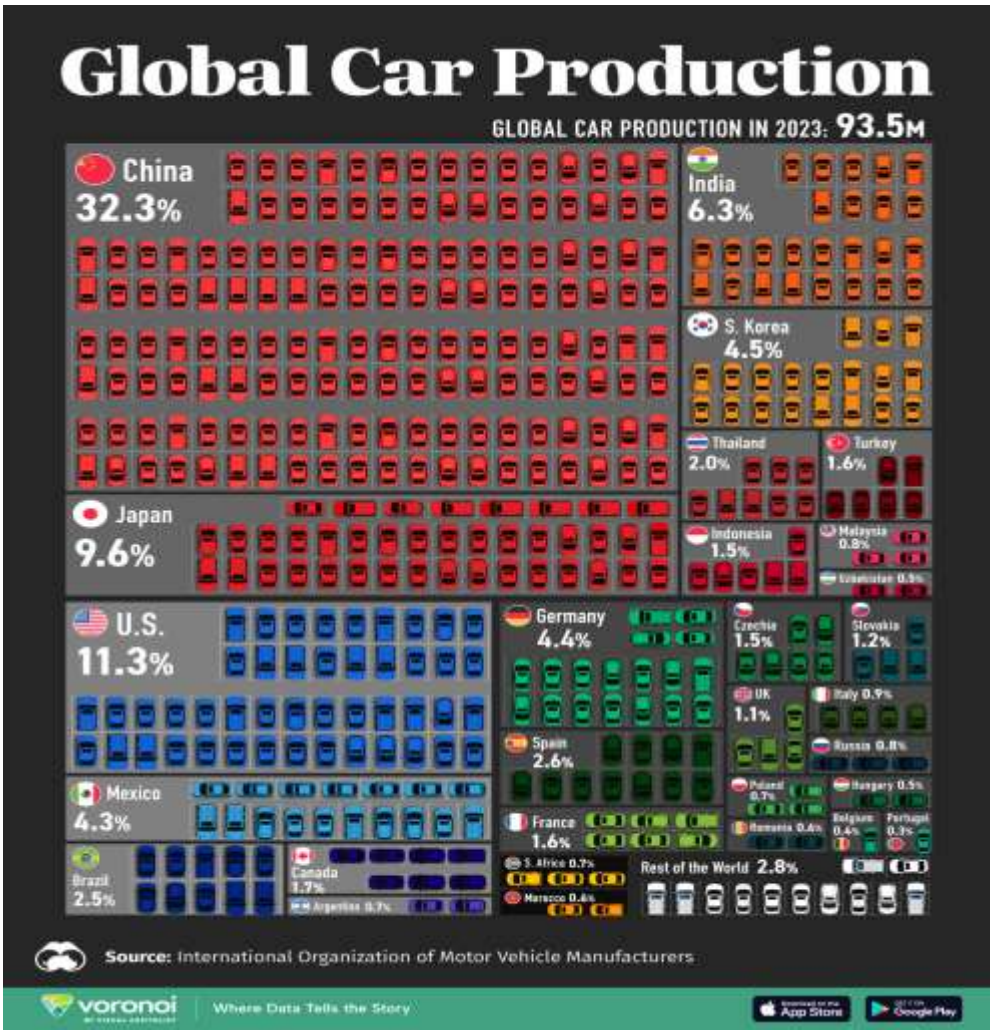
The Thai automotive industry exemplifies a successful transition from import substitution to global integration. Initially focused on domestic production through protective tariffs, it has evolved into a major player, ranking third in Southeast Asia and 12th globally, with annual production capacity exceeding 2 million vehicles. This growth, from a modest 160,280 units in 1989 to over 2 million reflects the industry's remarkable transformation. The annual auto industry exports of Thailand stood at $21.4 billion in 2020 compared to $1.2 billion in 1999.

A key factor in Thailand's success has been the strategic implementation of Local Content Requirements (LCRs). By mandating the use of domestically produced parts in some percentage of the total value of the vehicle, the government fostered the development of a robust local component manufacturing base. This proactive approach, unlike many other developing countries that solely relied on import substitution, has proven highly effective in driving industrial growth and enhancing competitiveness.

The gradual increase in the tariffs along with the increase in share of local manufactured parts in the assembly of vehicles enabled the domestic manufacturing of vehicles. From 1960 to 1998, the government of Thailand opted import substitution policies along with alluring investment in the

manufacturing of parts and LCR, and was successful in transforming assembly operation to manufacturing and enhancing the competitiveness of the local manufacturers

Thailand's commitment to global integration is evident in its early adoption of the WTO's Trade-Related Investment Measures (TRIMS) agreement. It was the first developing-country WTO member to do so. This proactive step, taken in 1998, marked a significant shift away from protectionism and towards a more open and competitive market. The LCR was also abolished in January 2000.



Chronology of Automobile Industrial Development Policy of Thailand:

1960s:

- Tariffs on CBUs (Cars 60% - Vans40% - Pickup Trucks20%).

- Tariffs on CKD kits (Cars30% - Vans 20% - PickupTrucks10%)

1974:

- Implementation of local content requirement (LCR)
- Assembled vehicles must use locally produced parts to at least 25% of the total value of the vehicle.

1978:

- Ban on imports of CBUs and duty of 80% on imports of CKD kits.
- Later Tariffs of 150% on imports of CBUs.

1982:

- LCR requirement for all vehicles set at 45%

1983:

- Intermediate inputs imported by firms exporting more than 30% of production were exempted from import duties

1985:

- LCR for passenger cars increased to 54%.
- List for compulsory and non- compulsory parts introduced

1991:

- Announcement of National Car Policy and start of local production of the diesel engine

1994:

- Domestic auto parts suppliers of assemblers were exempted from all taxes to promote backward linkages of auto industry.
- LCR requirement of 70%

1997:

- Abolished local ownership requirement on foreign-invested projects and ban on new assembly plants

Automobile Industry of Malaysia

The Malaysian automotive industry serves as a model for successful industrial transformation that has evolved from basic vehicle assembly to a significant manufacturing and export hub. Today, Malaysia boasts the third-largest automotive industry in Southeast Asia and the 23rd globally, producing over 500,000 vehicles annually with a market value exceeding $20 billion. This thriving sector comprises 27 vehicle producers and over 640 component manufacturers.

The automotive industry was established in 1963 with high tariff protection and was similar to Thailand's in terms of tariff protections and import substitution policies till 1970s. A key factor in Malaysia's success has been the strategic role of state-owned companies. Their involvement has driven the localization of parts manufacturing and fostered the growth of allied industries, contributing significantly to the industry's overall development. Despite continued protectionist measures, this focus on domestic production has fueled substantial industry growth.

Chronology of Automobile Industrial Development Policy in Malaysia

1966:

- Tariff son CBUs (30% to 80% depending upon engine capacity)
- Tariffs on CKD kits and parts (20% to 30%)

1972:

- Implementation of localization Policy
- Vehicle must have 10 percent of the locally produced content

1979:

- Implementation of Deletion Program
- Ban on the import of 200 parts that were produced locally

1982:

- Localization of parts was increased from 10 percent to 35 percent.

1983:

- Announcement of National Car company (Proton)
- Joint venture signed between Mitsubishi and Industries Corporation of Malaysia
- Protection of National Car
- Tariffs on CBUs (80% to 150% depending upon engine capacity)
- Tariffs on CKD kits and parts (40% to 60%)

1984:

- Exports of Proton
- Agreement signed with car dealer in U.K. for the exports

1991:

- Announcement of Second National Car Company (Perodua)
- Production started in 1994 with same level of protection as Proton

1995-2005:

- Protection
- Tariffs on CBUs (140% to 300%)

- Tariffs on CKD kits and parts (40% to 80%)

Actionable Policy Insights for Pakistan from Thailand and Malaysia

In 1960s, both Thailand and Malaysia had similar kind of automobile industry as of Pakistan which was protected by tariff. They were just assembling the auto parts with little local input and were ultimately dependent on imports. However, both countries introduced local content requirement (LCR) policy in early 1970s and initially 10% components were required to be local. This ratio was gradually increased that allowed local manufacturing to grow and decreasing reliance on imports. They also taxed the import of CBUs heavily but all these steps were very systematic to avoid any disruption of supply chain.

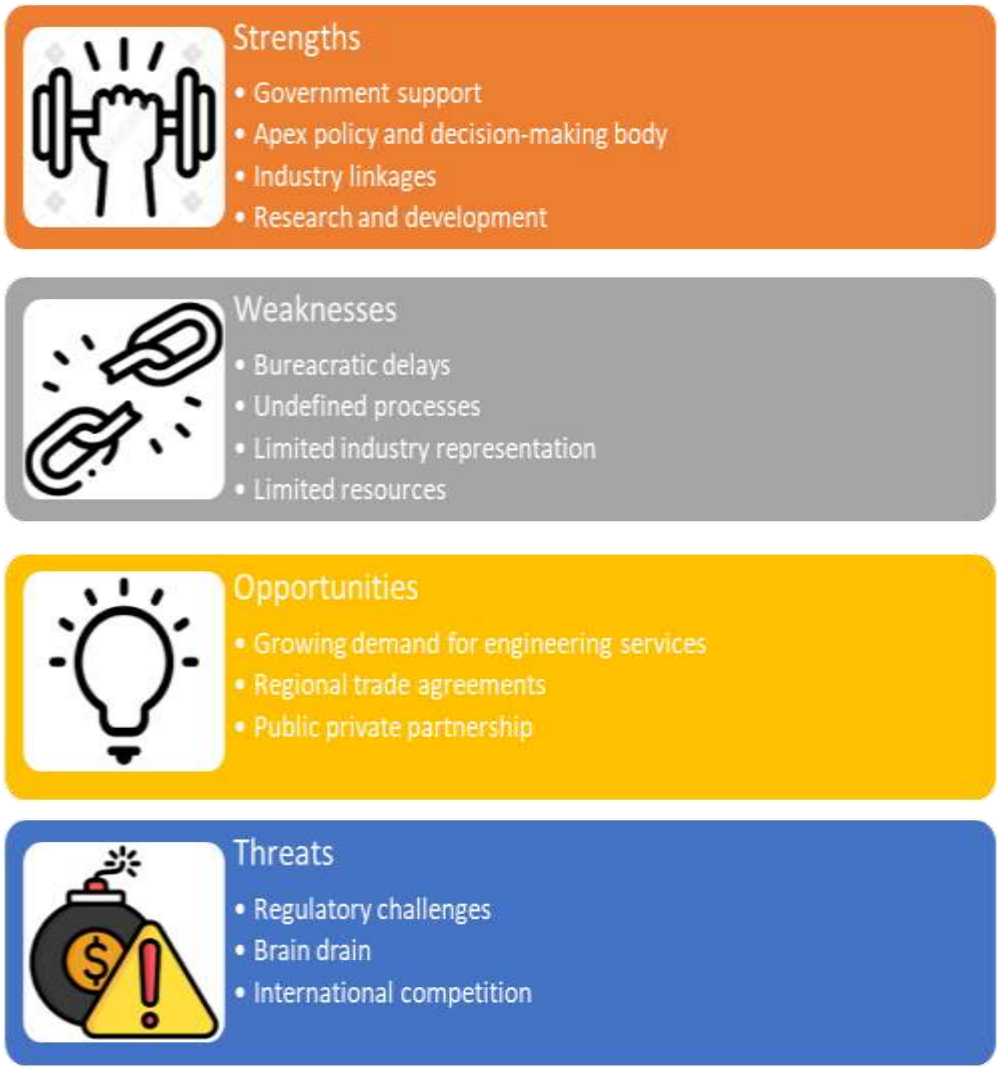
Pakistan's Automobile Industry can have certain insights from the growth of the automobile industry in Thailand and Malaysia based on their historical growth.

i. The policy and transition needs to be systematic and sustainable. No long-term change can be brought abruptly.
ii. Prolonged protectionism discourages operational efficiency and kills market competitiveness.
iii. Local Content Requirements (LCR) should be enhanced gradually but it must be in measurable terms i.e. percentage.
iv. Taxation on CBUs and CKD kits should be increased in direct proportion to the LCR. This will encourage the assemblers to invest in R&D and innovation in collaboration with local industry.
v. Enhancing the capacity of local industry is a prerequisite to attain any kind of indigenization.
vi. Private sector should be part of the consultative and decision-making process.

It is only with the adoption of these time tested measures, Pakistan can attain the goal of indigenization in automobile and transportation industry.

Analysis

SWOT Analysis: Engineering Development Board (EDB) is the organization responsible for development of automobile industry in Pakistan. In order to see the role of this organization in promoting industrial growth and economic development in the country, its SWOT/EETH analysis is being undertaken. The following are the strengths, weaknesses, opportunities and threats for Engineering Development Board (EDB).



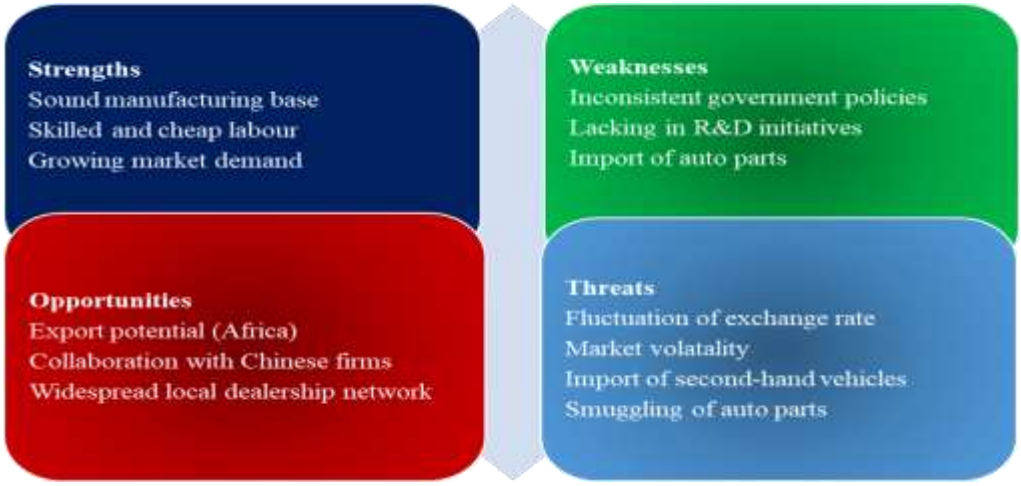
EETH Analysis: The following are the steps to be taken by Engineering Development Board (EDB) for enhancement of strengths, elimination of weaknesses, taking advantage of opportunities and to hedge against threats.

Stakeholders Analysis: The following are the stake holders to the issue who have different interests, power related to issue and they can play a vital role towards an amicable resolution**:**

i. Ministry of Industries and Production
ii. Engineering Development Board
iii. Board of Investment, FBR
iv. Pakistan Automotive Manufacturers Association
v. Pakistan Association of Automotive Parts and Accessories Manufacturers
vi. Dealers and Distributors
vii. Regulatory Bodies
viii. Consumers

S. No	Stakeholder	Interest	Influence	Expectation
1	Ministry of Industries and Production	Industrial Growth	High	Compliance of policies
2	Engineering Development Board	Industrial Growth, employment	High	Contribution to industrial growth
3	Board of Investment, FBR	Investment, taxes	High	Foreign exchange revenue generation
4	Pakistan Automotive Manufacturers Association	Profitability, market share	High	Quality products
5	Pakistan Association of Automotive Parts and Accessories Manufacturers	Business growth, technical support	Medium	Quality products
6	Dealers and Distributors	Sales growth	Medium	Timely delivery
7	Regulatory Bodies	Safety and environment standards	High	Compliance with regulations
8	Consumers	Quality products	Low	Fair pricing

SWOT Analysis: SWOT analysis of Pakistan's Automobile Industry was undertaken to analyze its preparedness to meet the future challenges and align with available opportunities within the country as well as in the global auto market. The following are the strengths, weaknesses, opportunities and threats of Pakistan Automobile Industry.



OXFORD INDEX OF PUBLIC ADMINISTRATION (OIPA)

Pakistan is ranked at 90 with 0.41 index score in the Blavatnik School of Government's Oxford Index of Public Administration 2024 (OIPA). Country's performance in data availability is even more deplorable with the lowest ranking in category D. We analyzed Pakistan's automobile and transportation industry against different domains and their themes to evaluate public administration, governance and service delivery:

Strategy and Leadership

The key areas of public Strategies and Leadership/Administration are strategic capacity, cross-government collaboration, openness, communication, integrity, and innovation. Pakistan ranks 104 out of 120 in the domain of Strategies and Leadership.

Strategic Capacity. There have been frequent changes in Auto policies, tariffs and taxes etc.

Cross Government collaborations. The main stakeholders i.e. Ministry of Industries and Productions, Ministry of Commerce, Ministry of Science and Technology, Engineering Development Board, Board of Investment, Federal Board of Revenue and others have not coordinated linkages, resulting in poor implementation.

Openness and Communication. Policy formulation involves limited involvement of stakeholders both from Government and private sector. Policy is not circulated among stakeholders for input. Cottage industry input in manufacturing of spare parts is not taken. The result is irrational policies contrary to the ground realities.

Integrity. There is widespread corruption in regulatory authorities and malpractices which not only hinder policy implementation but licensing regime.

Innovation. No steps for innovation has been taken by Government sector and as such environment is not conducive for innovation. The country remains dependent on Completely Knocked Down Kits (CKD Kits) and does not encourage indigenous production.

Public Policy domain

The key areas of Public Policy Domain/Governance are policy making, financial management, regulation, crisis and risk management and use of data. Pakistan ranks comparatively better at 79 out of 120 in the Public Policy Domain.

Policy Making. Policy making in Pakistan's auto sector has been inconsistent with frequent shifts in automobile policies, especially regarding import duties, localization requirements, and incentives for electric vehicles (EVs). The implementation of policies has also been weak.

Financial Management. The government imposes high tariffs on imported vehicles and parts to protect local manufacturers, generating significant revenue but this results in increased vehicle costs for consumers. Public-private partnerships for R&D and infrastructure development are scarce.

Regulation. The regulatory framework is corrupt, inefficient and itself an obstacle in the auto industries growth. Its licensing regime is the biggest obstacle.

Crisis and Risk Management. The sector faces multiple risks, including supply chain disruptions due to exchange rate volatility, global trade issues, and local political instability. Crisis management strategies are reactionary rather than proactive, with limited capacity to anticipate and mitigate risks. A lack of coordination between the public and private sectors in addressing systemic risks further exacerbates vulnerabilities. Insufficient support for SMEs in the supply chain makes the sector less resilient to economic shocks.

Use of Data. There is limited data collection in the auto industry. The use of Technology is minimal. The absence of centralized data of all stakeholders, auto setups and spares manufacturing facilities make it hard to take informed and evidence based decisions in policy making process and monitoring overall performance of the sector.

National Delivery

The key areas of National Delivery/Service Delivery are system oversight, digital services, tax administration, border services and social security. Pakistan ranks at 96 out of 120 in the domain of National Delivery.

System Oversight. Regulatory bodies lack the technical capacity and autonomy to effectively monitor and implement sectoral policies. Corruption and political interference further weaken system oversight resulting in limited accountability for manufacturers.

Digital Services. Digitization in both private sector and public sector is very rare. There is some progress in registration by provinces but there is a lack of central data base to integrate stakeholders in a single system.

Tax Administration. The Government collects significant revenue from tax collection on auto parts, CKD kits, Completely Built Units (CBUs), sales taxes, import duties and vehicle registration fee. However, tax compliance in the sector is challenging due to under-invoicing, tax evasion and a weak audit mechanism.

Border Services. Pakistan's auto industry relies heavily on imported CKD kits, spare parts and raw materials, while border services are inefficient and non-transparent which results in delays of consignments increasing costs and disruption of supply chains. This is mainly due to the absence of advanced customs technologies like automated clearance systems at ports and borders.

Social Security. The Majority of workforce in the auto sector is concentrated in assembly plants, dealership networks and parts suppliers. There are very limited formal labor contracts thus hindering social security of the workforce. Furthermore, little opportunity for skills upscaling of workers is available.

People and Processes domain

The key areas of People and Processes Domain are employees' engagement, diversity and inclusion, HR management, procurement and technology and workplaces. Pakistan ranks at 88 out of 120 in the domain of People and Processes.

Employees Engagement. A significant number of employees are engaged in auto parts manufacturing, distribution and service networks, however, little weightage is given to professional degrees / programs. Moreover, worker unions are weak limiting collective bargaining and opportunities for employees to voice concerns. This results in low morale and productivity especially in labor intensive segments like auto parts manufacturing.

Diversity and Inclusion. The auto sector is dominated by male with little opportunities for women and other underprivileged groups in both managerial and technical roles. The marginalized groups or persons with different abilities are not prioritized for inclusion.

HR Management. While large multinational companies have global HR standards, local firms do not have formal HR policies. Workforce formalization is very limited with majority of workers without contracts.

Skill development initiatives are insufficient, leaving workers ill-prepared for technological advancements such as those required for electric vehicle (EV) production.

Procurement. Procurement practices in the auto sector are inefficient and relies heavily on imported parts and CKD kits due to low localization. Due to corruption and lack of transparency, the procurement process often leads to inflated costs which are passed on to the consumer.

Technology and Workplaces. While multinational companies have adopted the modern technologies, the local manufacturer still rely on the old and outdated methods and machinery. Majority of the auto parts industries do not have international standard hygiene and safety standards. The lack of modern technologies hamper innovation.

Gap Analysis of Pakistan's Service Delivery in Automobile Industry

Based upon the Blavatnik School of Government's Oxford Index of Public Administration (OIPA) framework, a GAP analysis of Pakistan's service delivery performance related to the automobile and transportation industry, in comparison to Thailand and Malaysia, was conducted and following gaps transpired that require policy interventions:

Local Content Development: Pakistan's auto industry depends heavily on imported CKD kits and lacks a strong local component manufacturing base dissimilar to Thailand and Malaysia. This dependence on imports makes the industry vulnerable to external shocks and impedes the growth of a strong domestic supply chain.

Strategic Policy Implementation: Pakistan's auto policies have been inconsistent and lack the strategic approach manifested in Thailand and Malaysia. Frequent changes in policies, especially concerning import duties and localization requirements create uncertainty for investors and thwart long-term planning.

Government Support and Intervention: Thailand and Malaysia have demonstrated a more proactive and strategic role of government in supporting the auto industry. Pakistan's government interventions have been less effective, and issues like corruption and political interference further impede progress.

Focus on Innovation: While Thailand and Malaysia have made progress in nurturing innovation and technological advancement in their auto industries, Pakistan lags behind. The absence of a conducive environment for modernization keeps the country dependent on CKD kits and limits the

potential for developing local production capabilities.

Pakistan can learn from

the Thailand and Malaysia model and with these modest policy interventions, it can boast its automobile industry and curtail import bill besides providing economically efficient vehicles for the public.

Gap Analysis/Challenges

As the GAP analysis transpire, the automobile industry faces major challenges at different levels including at policy level, at Engineering Development Board level and some are directly related to the industry. Some of the key challenges faced by automobile sector, hampering its growth and contribution to the national economy are as narrated below:

Policy Level:

i. There is no integration of different government departments dealing
automobile sector. Furthermore, there is very limited data collection in auto sector and no central database is available to integrate the auto manufacturers, auto parts manufacturers, their associations and other allied industry. This results in serious gaps between different stakeholders and in policy formulation.

ii. Prolonged protection has diminished incentives to improve and contributed to inefficiency, economic losses and unproductive utilization of resources.

iii. Trade barriers have restricted the transfer of technology and resulted in a decline in productivity.

iv. Lack of focus on component localization have impaired the local industry.

v. Systematic transition of the policy from CBUs, SKDs, and CKDs to complete indigenization has not been done so far.

vi. High tariffs and taxes have soared the prices resulting in the inability of the majority to afford vehicles domestically and declined competitiveness internationally.

EDB Level:

vii. Long-term auto-specific Industrial Policy has not been devised.

viii. There are no defined processes for installation and operationalization of an industry. Similarly, no timelines are prescribed with the processes which results in redundant bureaucratic delays.

ix. There is minimum representation of the automobile industry in the EDB which results in policies that are not implementable.

x. Study on reasons of stagnancy in car production and success stories of other auto making countries needs to be undertaken.

Industry Level:

xi. Uncertainty emanating from short-term policies has mired foreign investment in the country and portends the existing automobile industry.

xii. Dependence on limited products and markets has stagnated the exports of the country. Increasing volumes to rationalize prices of vehicles needs to be done.

xiii. Absence of mechanism for localization of components in the auto policies has restricted the backward linkages of auto industry.

xiv. The automotive industry has not aligned with auto part manufacturing sector which has resulted in lack of R&D and innovation in the later.

xv. Integration of formal and informal auto and auto part manufacturing sector has not been done. Majority of the auto parts manufacturers are informal and unorganized. There are 2,200 auto parts manufacturing units, out of which 450 are organized and in tier 1, 425 in Tier 2 and 1325 are unorganized and after-market suppliers.

xvi. Inept engineering practices are being adopted by majority of the component manufacturers especially in the unorganized and informal auto sector, with a significant portion relying on machinery from the 1980s. Similarly, most of the skilled labor is not trained on new and sophisticated manufacturing machinery.

xvii. Market volatility and unrestrained imports and smuggling are also a major challenge for the industry.

xviii. Disclosure of value and share of imported and local materials used in auto assembly in not being done by any of the company.

Conclusion

The automobile and transportation industry is an important sector of Pakistan's economy that is contributing considerably to GDP, generating employment and fetching foreign exchange for the country. The industry has seen a remarkable growth over the stretch of history and at the moment there are 124 different automobile assemblers and manufacturers in Pakistan, with 34 dealing in 4-wheelers and 90 in 2/3-wheelers, but the main focus of the industry has been on maintaining the assembly line instead of building proper manufacturing setups.

The growth and development of the automobile industry is hindered by inadequate policy frameworks, relevant laws, tattered practices, insufficient investment in infrastructure, limited adoption of technology and innovation, bureaucratic delays and corruption and lack of skilled workforce coupled with inadequate training programs. Besides, there is no integration between different government departments, industry and other stakeholders.

The way forward however lies in integration of the policy makers, industry stakeholders, and other relevant parties to develop a comprehensive policy framework that promotes industry's growth and development. We also need to encourage the adoption of technology and innovation including electric vehicles along with streamlining the regulatory processes to reduce unnecessary bureaucratic delays. Development of special training programs and availability of skilled and economical workforce is also necessary.

By addressing these challenges and implementing effective and inclusive policies and improved practices, Pakistan's automobile and transportation industry can achieve sustainable growth and development whereby contributing to country's economic prosperity and improving the quality of life for its citizens.

Recommendations

Being a very complex and significant issue, it needs a very integrated and multi-faceted action plan to tackle the issue and revive the automobile industry in Pakistan. The following actions are proposed at different levels and involving various stakeholders of the issue.

Policy Level: There are about a dozen ministries that are somehow related to the automobile policy that include Ministry of Industries and Production, Ministry of Commerce, Ministry of Science and Technology, Ministry of Climate Change, Federal Board of Revenue, Board of Investment and many others but there is hardly any coordination or integration among these different stake holders.

Engineering Development Board, to an extent, was entrusted with this role but it also failed in this role. It is therefore very crucial to make coordination among these stakeholders.

Systematic transition of the policy needs to be made on Thailand and Malaysia model with gradual shifting from CBUs, SKDs, and CKDs to complete indigenization. Although there is some progress but it's not uniform.

Manufacturer/Assembler	Product	%age Deletion Achieved
M/s Pak Suzuki Motor Company Limited, Karachi	Suzuki Mehran Car, 800cc	73%
	Suzuki Cultus Car, 1000cc	69%
	Suzuki Pickup, 800cc	70%
	Suzuki Bolan Van, 800cc	68%
	Suzuki Swift Car	38%
	Suzuki Cargo Van	68%
	Suzuki Wagon	32%

The systematic approach will ensure transition from CBUs and assembling to local manufacturing but without the supply chain disruption. The current policy is just compilation of ideas as it has a list of wishes but no means defined to attain that.

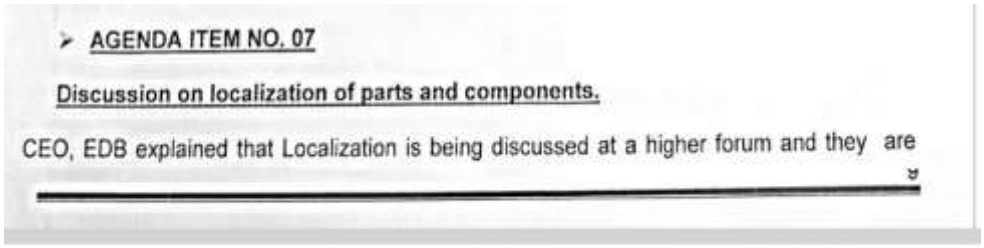
A comprehensive database should be developed to integrate the auto manufacturers, auto parts manufacturers, their associations and other allied industry. This would balance the demand and supply and will boost the local industry besides lessening the cost of doing business.

A national electric vehicle (EV) policy should be developed to encourage the adoption of EVs, giving incentives for manufacturers, importers, and consumers. As a pilot project, PPP may be undertaken to introduce and operationalize EV infrastructure in 2, 3 major cities. Government may also extend easy credit to private sector and individuals on low markup for adoption of EV.

The Government must provide tax incentives and grants for investment in modern machinery and processes to the small and medium size auto parts manufacturing setups and encourage partnerships with international technology providers for technology transfer. The three key players of automobile industry, Suzuki, Toyota and Honda can also bound to invest in R&D and local partnerships.

6. Taxes constitute about 40% of locally manufactured/assembled vehicles price and if government reduces these taxes considerably, it will decrease the prices drastically encouraging new buyers and that in return will result in additional manufacturing. Increased volumes will further rationalize prices of vehicles and the whole production, affordability and consumption cycle will be enlarged.

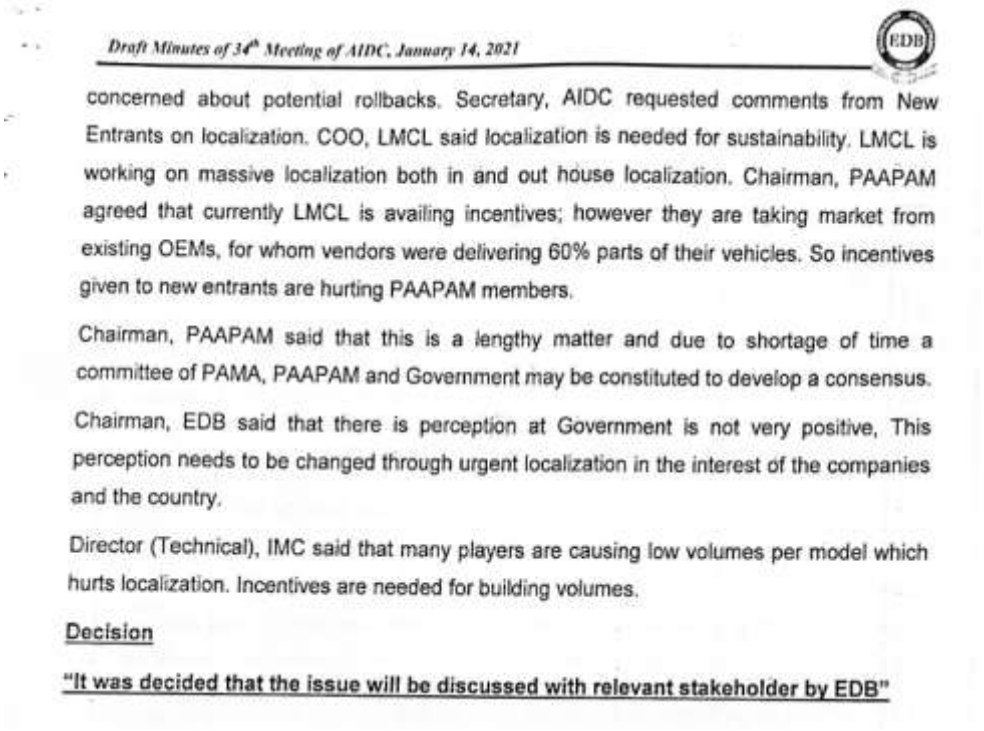
Engineering Development Board:



➢ **AGENDA ITEM NO. 07**

Discussion on localization of parts and components.

CEO, EDB explained that Localization is being discussed at a higher forum and they are



Draft Minutes of 34th Meeting of AIDC, January 14, 2021

concerned about potential rollbacks. Secretary, AIDC requested comments from New Entrants on localization. COO, LMCL said localization is needed for sustainability. LMCL is working on massive localization both in and out house localization. Chairman, PAAPAM agreed that currently LMCL is availing incentives; however they are taking market from existing OEMs, for whom vendors were delivering 60% parts of their vehicles. So incentives given to new entrants are hurting PAAPAM members.

Chairman, PAAPAM said that this is a lengthy matter and due to shortage of time a committee of PAMA, PAAPAM and Government may be constituted to develop a consensus.

Chairman, EDB said that there is perception at Government is not very positive, This perception needs to be changed through urgent localization in the interest of the companies and the country.

Director (Technical), IMC said that many players are causing low volumes per model which hurts localization. Incentives are needed for building volumes.

Decision

"It was decided that the issue will be discussed with relevant stakeholder by EDB"

These are the minutes of the 34th Meeting of the Auto Industry Development Committee of EDB held on 14th January, 2021 held in the committee room of BOI. It shows the interest and commitment of EDB on this important issue of localization of parts and components, a major step for indigenization.

7. The EDB should develop a comprehensive automotive policy, establish a clear vision, mission, and objectives for the industry's development, including targets for localization, exports, and employment generation. But these targets must be measureable KPIs so as to track the progress achieved and further interventions required.

8. The regulatory processes need to be streamlined so as to reduce bureaucratic delays and simplify procedures for obtaining licenses, permits, and approvals. Presently too much discretion is vested in the EDB rendering it a crooked and indolent entity.

9. Public-private partnerships need to be encouraged for collaboration between government, industry, and academia to develop new technologies, products, and services. The EDB should promote research and development (R&D) to boost industry-academia collaboration to diversify the products, and services.

Industry Level:

10. Participation of industry should be ensured in policy making and all major players including the auto parts manufacturers and informal industry should also be made part of the deliberations and process being major stake holders.

11. Karachi has been the major hub of automotive industry. However, with the passage of time, the industry also laid its foothold in Lahore. Currently, Lahore auto parts cluster is the second largest hub for auto parts manufacturing after Karachi and caters to almost fifty percent of auto parts demands of assemblers and after-markets.

Karachi: Hub Chowki, Port Qasim, Landhi, Korangi, Industrial Area
Lahore: Badami Bagh, McLeod Road, Bilal Ganj, Kot Lakhpat, Thokar Niaz Baig

Major Products - Metal Auto Parts

1	Adapter Plate	41	Engine Valve Guides	81	Pitman Arms
2	Alex /Ball	42	Exhaust Manifolds	82	Pulley
3	Aluminium Radiators	43	Exhaust Muffler	83	Race End
4	Armrest	44	Fenders	84	Radiator Cores
5	Ash Tray	45	Floor Member	85	Rocker Levers
6	Automobile Horns	46	Fly Wheels	86	Rod Connecting
7	Axle Arm	47	Front & Middle Cowl	87	Rod Shifter
8	Backstay	48	Front & Rear Hub	88	Screw Jack Assy
9	Ball Joints	49	Front Fork	89	Service Valves Meter Body
10	Battery Retainer	50	Front Frames	90	Shackle Plates
11	Bearing Cup	51	Fuel Filters	91	Shaft Rear Axle
12	Bolts	52	Fuel Gauges	92	Shafts
13	Bracket Tail Light Case	53	Fuel Tank Assy	93	Shock Absorbers & Strut
14	Bracket Transmissions	54	Fuel Tank	94	Side gate panels
15	Brake Cam Lever	55	Fuel Tanks	95	Splined Shaft and Helical
16	Brake Drums	56	Gaskets	96	split pins
17	Brake Shoe	57	Gear Shifter Drum	97	Springs
18	Cam Chain	58	Gears	98	Steel Wire Springs
19	Cam Shafts	59	Hanger Spare	99	Steering Box
20	Carburetor	60	Helping Rod Bush	100	Steering Gear Box for Tractors
21	Cargo Bodies	61	Hub Crank	101	Steering Knuckle
22	Centrifugally Cast Cylinder Liner	62	Hub Idler Gear	102	Steering Rocker Shafts
23	Chain Case	63	HVAC Parts	103	Stem Nuts
24	Clevis Hydraulic	64	Hydraulic Lift Arms	104	Step Bar
25	Clutch facing	65	Kick Spindle	105	Straight Bevel Gear
26	Clutch Pedals	66	Leaf Springs Assy	106	Tappet Covers
27	Clutch/ Brake Pedals	67	Lever Parking Brakes	107	Thrust Washers

28	CNG Kits	68	Limiter Pipe	108	Tie Rod Ends
29	Crankcase Covers	69	LPG Regulators	109	Timing Gears
30	Cross Members	70	Member Fronts	110	Tool Kit
31	Crown Wheel & Pinion	71	Motor Cycle Handles	111	Tractor Wheels
32	Cylinder Body	72	Motor Cycle Rims	112	Transmission Kits
33	Disc Front Brake	73	Muffler	113	Tube Assy Exhaust
34	Dish Drums	74	Nipple & Spoke	114	Turn Signal Assy
35	Door Hinges	75	Oil Filters	115	U-Bolts
36	Drum Rear Brake	76	Oil Pump	116	Washer Assy
37	Engine Bearings	77	Oil Pump Gear	117	Wheel Chain
38	Engine Blocks	78	Oil Sump	118	Wheel Hub
39	Engine Bushes	79	Pillar	119	Wheel Rims
40	Engine Mounts	80	Pistons	120	Yoke Assy

Major Products - Rubber/Plastic Auto Parts

1	Axle Boot	24	Head Light Case
2	Bumpers	25	High Pressure Fuel Injection Pipes
3	Oil Seals	26	Indicator Case
4	Starting Ring Gears	27	Insert & Sleeves
5	Air Filter	28	Mirror case
6	Battery Covers	29	Mounting Exhaust Pipe
7	bonnet seals	30	Mudguard
8	Brake & Fuel Pipes	31	O Bush
9	Brake Linings	32	O-Rings
10	Dash Board Insulators	33	Penal Cowl Top
11	Door Stopper	34	Radiant Hose
12	Door Trim	35	Roof Lining
13	Fan Shrouds	36	Rubber Hoses
14	Flaps for passenger cars	37	Shock Boot
15	Flexible Coupling	38	Speedometer Case
16	Floor Carpets	39	Spring Shackle Bush
17	Floor Mat	40	Strut Bar Bush
18	Footrest	41	Strut Bar Rubber
19	Fuel Injection Pipes	42	Suspension Bush
20	Fuel Sending End Units	43	Tool Box

21	Grill Assy	44	Tyres & Tubes
22	Grip Assist	45	Weather Strips
23	Handle Grip	46	Wheel Cap

Major Products - Electronic/Electrical Parts

1	ACG (Magneto)	19	Heater Blowers Wiring Harness
2	Adaptor	20	Ignition Coil
3	Android based car security	21	Instrument Panel
4	Anti - Theft System	22	Key Sets (Locks)
5	Auto Wire	23	Lamps
6	Automotive Batteries	24	LEDs
7	Automotive Radios	25	Light switch
8	Automotive Speedometers	26	MIB
9	Bluetooth car door locking	27	Plug Cap
10	Cable & Channels	28	Potentiometer
11	Capacitor Discharge Ignition (CDI)	29	Regulator Rectifier
12	Car Audio System	30	RFID based car alarm system
13	Control Cable	31	Side Turn Lights
14	Control Wirers	32	Starter Motor & Alternators
15	GPS Self-Monitoring System	33	Switch Assembly Winker
16	Head Light Holders	34	Tachometers
17	Head Lights	35	Winker Flasher
18	Heat Light Assembly	36	Wire Harness

Integration of formal and informal auto and auto part manufacturing sector should be done as almost every metal, rubber and electrical part of the vehicle is being manufactured but since there is no standardization and integration of these with main industry, a lot of exploitation is being done by major assemblers. 1,325 out of 2,200 auto parts manufacturers are informal and unorganized and are just catering for merely after-market suppliers.

12. New technology needs to be introduced in manufacturing and assembling sector as even our major manufacturers are still relying on decades old technologies resulting in cost in-efficient products.

Inept engineering practices being adopted by unorganized and informal auto sector, are not only compromising the quality of products but also are not cost effective. It is due to this very fact, our auto as well as auto spares industry in unable to compete internationally.

13. The Government should invest in training programs and technical education to enhance workers' skills and familiarity with modern systems like CAD/CAM. Furthermore, On Job trainings to existing skilled labor on new and emerging technologies is also very necessary.

14. Pakistan's automobile industry has imported CKD kits worth US$ 4309 million during the last 4 years which is in addition to an amount of the equal tune spent on import of CBUs though no explicit data was available for it.

Fiscal Year	**Import Bill (USD Million)**
2020-2021	1,110.0
2021-2022	1,670.0
2022-2023	750.0
2023-2024	779.0
Total :	**4,309.0**

These thriving CKD imports by the local assemblers were due to the low localization of parts in locally assembled vehicles, especially being rolled out by the new entrants under incentive packages offered under the AIDEP 2026-2021. Besides, the new models of old players also carry low volumes of locally made parts, thus nullifying assemblers' tall claims of achieving the highest-ever localization. It I therefore proposed to impose an immediate ban on import of those items that are being produced locally, on the Malaysian model. This would also compel the assemblers to collaborate with local industry to work on the quality of the manufactured auto parts.

Out of Box Recommendations:

15. Pakistan Steel Mills Corporation (PSMC), which was envisioned as a cornerstone of Pakistan's industrial development, spreads over a vast area of approximately 18,660 acres (75.5 square kilometers) with an original design capacity of producing 1.1 million tons of steel per annum. Presently, the PSMC is almost 'inoperative' but it has the potential to play a crucial role in the development of Pakistan's industrial sector, particularly the automotive industry.

It has the capacity to produce a range of steel products including billets, slabs, hot rolled coils, cold rolled coils, galvanized sheets, and other steel products. PSMC can be made operational through a public private partnership alongside alignment of some interested auto manufacturer(s) to use its production in auto parts and machinery manufacturing. This would provide a complete solution to the industry under one roof while at the same time operationalizing a sick industrial unit and converting it into a Special Industrial Zone.

It would have significant positive impacts on the domestic steel market, reducing reliance on imports and supporting the growth of downstream industries. Local Steel industry also needs to be incentivized in terms of tax exemptions and subsidies to encourage establishment of new steel plants to produce auto grade steel. Similarly, there are large reserves of aluminum in the country. Investors may be incentivized to establish industry to produce aluminum sheets locally.

16. All out efforts shall be made to introduce and develop National Brands of "Make in Pakistan" and "Made in Pakistan".

17. The CNC machines at PITAC, PCSIR, NTB and others may be made accessible to OEPs (Original Equipment Producers) so that they have access to modern and sophisticated technology which is lying poorly utilized.

18. Auto Industry Development Committee which is the main body chaired by Minister Industries and Production has no representation from OEPs (Original Equipment Producers) especially the unorganized/informal more than 1300 units which are the most underprivileged. Their representatives from all clusters (3 from each, total not less than 20) be made in the committee to protect their rights and integrate them in policy making and execution thereby enabling this community to reap the benefits of the policy.

19. Special Economic Zones may be established for Auto Sector preferably in the vicinity of existing clusters and be provided special incentives and complete ecosystem of auto industry.

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