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GERMAN PAKISTAN TRADE and INVESTMENT

THE PAKISTANI AUTOMOTIVE INDUSTRY

GENERAL INFORMATION ABOUT PAKISTAN

On 14th of August, 1947 the country emerged as an independent state, being the sixth most populous country in the world symbolizing “the land of pure”. The countries’ rich heritage speaks volumes from excavations of historical sites at Harappa, Mohenjo-Daro to Taxila dating back to 3000 BC - also it has been the center of the great Indus Valley civilization dating back to at least 5000 years.

The country is traditionally an agricultural country, the past decade saw a steady rise in the manufacturing sector; located at the crossroads of Asia, with China (523 km) as its neighbor in the North, India (2912 km) in the East and Iran (909 km) and Afghanistan (2430 km) in the West. It comprises of five provinces, namely Sindh in the South East; Punjab in the North East; Baluchistan in the West, Khyber Pakhtunkhwa (KPK) in the North West and Gilgit-Baltistan in the North - covering 796,095 sq. km. The mountainous North serves as the juncture for three of the world’s largest mountain ranges: Hindu Kush, Karakoram and the Himalayas. It is filled with snow-covered peaks, deserts, mountains, valleys with irrigated plains. The coastline of the Arabian Sea in the South stretches for about a 1000 km, while the West holds the Baluchistan Plateau. The Indus River along with its network of tributaries journeying 3,200 km from Tibet, through the mountainous North inundating the Indus Plains before merging with the Arabian Sea of the Indian Ocean is located in the East.

As far as the climate is concerned, the countries’ climate varies with seasonal extremes of temperature - excluding the temperature of the coastal region. Monsoon

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season (June - September), with warm weather and heavy rainfall in some areas. From December through February the temperature drops significantly, while in spring it is very warm and dry. The temperature drops below freezing point during the winter 3 of 29 whereas the summer temperature reaches 55°C (131°F). Due to the high altitude the Karakoram and the Hindu Kush mountain ranges are snowbound for much of the year.

Pakistan is a young country, with an unevenly distributed population, with majority of people living in the rural areas. The median age accounts to 22 years and the total population accounts to over 180 million at the growth rate of 2% as of 2013 estimate - the sixth most populous country in the world. In recent years, the population from rural areas has been migrating to cities in the hope for better job opportunities – urbanization.

ECONOMIC OVERVIEW

Pakistan can be categorized as a semi-industrialized economy. Despite numerous improvements achieved in the national economy in the year 2014 it still struggles to attain macroeconomic stability. The core sectors of Pakistan's economy are the agricultural sector, the industrial sector, the manufacturing sector and the service sector. All the sectors of the economy have shown growth in the fiscal year 2014. The agricultural sector grew at a rate of 2.12% whereas the industrial and the manufacturing sector both grew at a rate of 5.84% and 5.31% respectively. The service sector also showed improvement in the fiscal year 2014 by expanding by 4.29%, whereas the overall GDP growth accounted to 4.14%, which is the highest achievement since the year 2008-09. (Ministry of Finance, Economic Survey 2013-14) During the last few years the Pakistani economy has been facing a multitude of challenges which have led the country to face stagnation and instability on the macroeconomic level. The fiscal debt of the country has widened due to factors such as the increased spending by the government coupled with issues such as a frail tax collection system. The fiscal deficit of the economy expanded to 8.2% of GDP in the year 2012-13 from 5.2% of the GDP in the year 2008-09, which clearly depicts a huge increase. (Ministry of Finance, Economic Survey 2013-14)

Foreign investment in the previous years has not shown much improvement and has remained low due to the political and economic instability, which has been continuing since the last few years. Also, the on-going energy crises has hindered foreign investment. In the previous years, the government has been working earnestly towards improving the situation and has created a business conducive environment to attract foreign investment. The new policies introduced by the government such as privatization, de-regulation and facilitation amongst others have resulted to an increase in foreign direct investment of 133.3% in the year 2013-14, from the year 2012 (Ministry of Finance, Economic Survey). As a consequence, Pakistan is slowly but steadily making huge progress in creating an investment friendly environment for foreign businesses. The major business areas in which foreign businesses invest in Pakistan comprise of financial business, energy, communications, oil and gas exploration as well as chemicals. United States, Hong Kong, UAE, UK and Switzerland are the countries from which the primary inflow of FDI comes from.

PAKISTAN'S ECONOMIC KEY FACTS

Table 1: Pakistan's Economic Key Facts

Currency	Pak. Rupee (PKR) = 100 paisa
Exchange Rate	1 Euro = 114 PKR
GDP (US $)	2012: 224,6 billion, 2013: 232,3 billion, 2014: 246,9 billion
Inflation rate	2012-13: 8,6%
Exports	2011-12: USD 24.7 billion 2012-13: USD 24.8 billion
Export Commodities	Cotton, textile goods, rice, leather items, carpets, sports goods, handicrafts, fish and fish preparation and fruit. (Germany 3,7%)
Imports	2011-12: USD 40.5 billion 2012-13: USD 40.3 billion
Import Commodities	Industrial equipment, chemicals, vehicles (22,9% from Germany), steel, iron, ore, petroleum, edible oil, pulses and tea. (Germany 4,2%)
Sector-wise employment share 2012-13	45% Agriculture, Service 34%, Manufacturing 21%
Fiscal Year	01 July - 30 June
Major Industries	Textiles, cement, fertilizer, steel, sugar, electric goods, shipbuilding, mining, IT Industry

Source: Investment in Pakistan 2013 (KPMG), Government of Pakistan Economic Survey 2012-13

GERMAN – PAKISTAN BILATERAL TRADE

Pakistan and Germany have retained amicable trade relations built on mutual interest, commitment and benefit since many years. Within the European Union, Germany is Pakistan's most important trading partner and has signed a trade agreement with Pakistan back in the year 1957. The following Table 2 displays the bilateral trade statistics between the two countries since the last 5 years.

Table 2: Pakistan's trade with Germany 2009-2013 in million US$

Year	Import	Export	Total trade volumelume	Trade Balance
2009	1271.1	719.2	1990.4	-551.9
2010	985.6	981.2	1966.8	-4.4
2011	1000.5	1312.2	2312.7	311.7
2012	1144.0	988.5	2132.5	-155.5
2013	1055.1	804.6	1859.7	-250.5

Source: United Nations Commodity Trade Statistics Database 2014, Germany Trade and Invest 2014

As displayed in Table 2 above, in the year 2013 Pakistan's trade with Germany showed a decrease from 2132.5 million in the year 2012 to 1859.7 million in the year 2013. Pakistan exported goods worth 804.6 million while it imported goods worth 1055.1 million, thus leading to a trade deficit of -250.5. Despite this fall in the trade volume it can be observed that the bilateral trade between the two countries has almost consistently increased. Pakistan, however has been facing a trade deficit in all the previous 5 years excluding the year 2011 in which it achieved a trade surplus of 311.7 as exports exceeded imports. Analyzing the trade volume between the two countries in the last 5 years it becomes quite evident that the average trade volume is below 1.9 billion, which is a fairly restrained level of bilateral trade and hence there is room for improvement.

Major items of Pakistan exports to Germany are textiles, leather goods, carpets, surgical instruments, cutlery, rice and horticulture products. Major items of Pakistan's imports from Germany include machinery, pharmaceuticals, motor vehicles, chemicals & dyes, iron & steel products. Investments are a vital area of Pakistan-German relations. German companies with major investments in Pakistan include BASF, Bayer, Merck, METRO, etc.

Table 3: Imports from Germany (Million US $)

Imports from Germany (Millions US$)			
Commodity (Description)	2011	2012	2013
Machinery, nuclear reactors, boilers, etc.	261	278	340
Electrical, electronic equipment	112	69	113
Iron and steel	80	75	69
Optical, photo, technical, medical, etc. apparatus	60	59	71

(Source) ITC Trade Statistics

Table 4: Exports from Pakistan

Exports from Pakistan (Millions US$)			
Commodity (Description)	2011	2012	2013
Articles of apparels, accessories, not knit or crochet	345	245	231
Other made textile articles, sets, worn clothing etc.	309	206	260
Cotton	147	96	135
Articles of apparels, accessories, knit or crochet	137	93	121
Articles of leather, animal gut, harness, travel goods	130	117	159

(Source) ITC Trade Statistics

German businesses are represented in Pakistan by merely multinational corporations - mainly located in Karachi, Lahore and by Pakistani trade agents representing the majority of the German companies in areas such as chemical & pharmaceuticals (55%), machinery, instruments, automotive and any such related equipment as well as services. The majority have their offices & production plants located in the metropolitan city of Karachi, whilst some are located in Lahore and about one in Quetta.

These multinationals and most of their Pakistani business agents are members of the Pakistan German Business Forum (PGBF) and German Pakistan Trade and Investment (GPti) with its head office in Karachi - providing services related to bilateral trade and investment activities of the chamber of commerce. Adding up to the PGBF and GPti, the economic departments of the German Embassy in Islamabad and the Consulate General in Karachi represent the interests of the business community of both countries.

Germany is the absolute leader of auto production in Europe since 1960s. A couple of German automobile brands are already engaged in the Pakistani market, such as Mercedes and BMW - however, these fall under the segment of luxury cars. Local partners are used for assembling facilities, thus not assembled locally but imported - usage of local partners with APs (approved permits). The distribution is conducted by brand owners, whilst sold through various dealers.

OVERVIEW OF PAKISTANI AUTOMOTIVE INDUSTRY

The history of Pakistan's Automotive Industry is one of the oldest in the Asian countries. The Industry started semi knockdown production of trucks (Bedford) in 1949 by General Motors, which marked the start of the industry's history after the independence from British India. From this year onwards the Industry has not shown steady growth and thus lags behind and is overtaken by other countries in Asia such as China, Thailand and India, consequently its positioning in the global market is also questioned. Trade liberalization has not been supported by the automotive industry of Pakistan, which has led to consumers facing higher prices, low quality standards and inadequacy of competition in this sector. Being the sixth largest manufacturing subsector of the economy the automobile industry employs 3.5 million workers and contributed 2.8% to the GDP in the year 2012 posing a turnover of over PKR 300 billion (KPMG, Investment in Pakistan 2013).

The market had a production capacity of 751,887 units in 2012-13 but is a fairly concentrated market with only eight models accounting for all the car sales in the country. These models are made by three Japanese firms namely Honda, Suzuki and Toyota.

Over 100 companies exist in Pakistan that assemble motor vehicles, which include cars, trucks, busses, motorcycles, rickshaws as well as tractors. Around 1,700 automotive parts manufacturers are present in the Automotive Industry of Pakistan. The parts manufacturers are mainly local capital companies whereas the OEM assemblers are led by Japanese companies. The production system and technology faces many weaknesses due to the lack of competition in the industry caused by localization requirements. Foreign investment also remains low in parts of the industry.

After the production of the first car in Pakistan - in the early 1990's due to deregulation after having experienced high regulation at the start, Japanese manufacturers created utmost competition by entering the market. The assembly of Hyundai cars 1999, Daihatsu as well as other brands of mini trucks and LCVs are more recent, whereas the following entered at the introduction of deregulation: HINO trucks, Mazda trucks, Suzuki cars in 1984, Toyota in 1993 and Honda in 1994. Majority of the cars in Pakistan have dual fuel options and hence also run on CNG (which is cheaper as well as more affordable than petrol in Pakistan).

The industry merely operates under the rising urban buying, technical cooperation agreements and franchise with China, Japan, Korea and Europe. It should be noted that Pakistan falls in the category of the few manufacturers in the world who are producing or assembling all kinds of vehicles, ranging from trucks & buses, 2/3 wheelers, motorcars, prime movers, tractors and LCVs (light commercial vehicles). Major international brands merely comprise of Honda, Suzuki (currently the market leader with 60% market share), Toyota, Nissan Motors and General motors. The major allied industries comprise of CNG (compressed natural gas stations), workshops, automobile parts shops and tire shops. The main producer associations in the sector are PAMA (Pakistan Automotive Manufacturers Association), PAAPAM (Pakistan Association of Automotive Parts and Accessories Manufacturers) and APMA (Association of Pakistan Motorcycle Assemblers). All of the associations provide basic and useful information to their members. Furthermore, the Engineering Development Board (EDB) maintains data about the automotive industry.

PRODUCTION, SALES AND MARKET SHARE

Production

A wide range of automotive products are available in the market which can be seen in the following Table 5:

Table 5: Range of Automotive Products in Pakistan

Range of Automotive Products in Pakistan					
Cars	LCVs	Tractors	Motorcycles	Trucks	Bus
Honda	Suzuki	Fiat	Honda	Master	Hino
Suzuki	Changan	Massey Ferguson	Yamaha	Isuzu	Nissan
Toyota/Daihatsu	Toyota	Universal	Suzuki	Hino	Dong Feng
Nissan	Hyundai	Hero	Qinqqi	Nissan	Isuzu
Chevrolet	Master	Farmall Technology	Pak Hero	Daewoo	Master
Hyundai	Kalash	Arzoo Tractors	Hero	Afzal Motors	Daewoo
		PM Auto Industries	Other Chinese Brands	Roma Motors Co	Afzal Motors Co
				Bibojee Services	

Source: IGC (2012)

Cars being produced in Pakistan have different capacities, which range from 800cc to 1600cc. Both cars running on manual transmission as well as automatic are produced either running on petrol or diesel. The following Table 6 shows the production of different type of cars since the last five years.

Table 6: Production of different type of Cars 2009-2013

Production of different type of Cars 2009-2013					
CAR 1300-1600cc (2000cc Diesel)	2009-10	2010-11	2011-12	2012-13	2013-14
Honda Civic	5,648	6,408	5,396	9,608	10,020
Honda City	7,852	9,294	7,089	11,638	13,585
Suzuki Baleno	0	0	0	0	0
Suzuki Liana	900	614	334	150	144
Suzuki Swift	2,578	4,376	7,128	5,945	5,047
Toyota Corolla	43,382	41,419	46,352	32,882	28,124
Nissan Sunny	0	0	0	0	0
Kia Classic NGV	0	0	0	0	0
Kia Spectra 1000cc	0	0	0	0	0
Suzuk i Khyber/Cultus	12,453	12,414	13,600	12,785	14,467
Suzuki Wagon-R	0	0	0	0	2,208
Suzuki Alto	10,665	12,873	15,288	0	0
Hyundai Santro Plus 800cc	212	0	0	0	210
Daihatsu Cuore	5,145	6,280	3,635	0	0
Suzuki Mehran	22,271	25,935	33,839	34,278	28,485
Suzuki Bolan	10,541	14,359	21,594	13,046	13,991
Suzuki Margalla	0	0	0	0	0
TOTAL CARS	121,647	133,972	154,255	120,332	116,281

Source: Pakistan Automotive Manufactures Association (PAMA)

As can be seen from Table 6 above the production of total cars has increased from 121,647 cars in year 2009-10 to 133,972 cars in 2010-11. Similarly, an increase took place in the following year where the total production of cars increased by 20,283 (2010-11 to 2011-12). The following years a fall in the total production of cars was observed. From a total of 120,332 cars in 2012-13 the production fell to 116,281 in the year 2013-14. However, it must be noted that the values displayed in the tables do not include the production of companies that are not members of the PAMA.

Concerning the truck production it can be stated that the total production fell consistently from the year 2009 to the year 2012-13 and in the following year it howed an increase from a total of 1,923 trucks in 2012-13 to a total of 2,674 trucks in the following year 2014.

Table 7: Production of different types of Trucks 2009-2013

Production of different type of Trucks 2009-2013					
Truck	2009-10	2010-11	2011-12	2012-13	2013-14
Hino	2,070	1,307	1,237	768	1,058
Nissan	515	469	228	208	378
Dong Feng	0	0		0	0
Master490	746	712	648	641	
Isuzu	350	379	420	299	597
Volvo	0	0	0	0	0
Transmobile Yasoob	0	0	0	0	0
Total Trucks	3,425	2,901	2,597	1,923	2,674

Source: Pakistan Automotive Manufactures Association (PAMA)

The total number of Buses produced in the last five years does not show a consistent trend. A fall in the total production took place from the year 2009-10, where the total of produced buses amounted to 628 busses to a total of 490 in the following year 2010-11. In the following year 2011-12 an increase took place from 490 buses to 568. A fall from 568 to 522 in the following year 2012-13; and then again an increase to 558 busses in the next year 2013-14 was observed. This trend is displayed in Table 8 below.

Table 8: Production of different types of Buses 2009-2013

Production of different type of Buses 2009-2013					
Bus	2009-10	2010-11	2011-12	2012-13	2013-14
Hino	484	394	468	420	477
Nissan	30	0	6	0	6
Dong Feng	0	0	0	0	0
Master19	1	22	4	14	
Isuzu	95	72	72	98	61
Total Buses	628	490	568	522	558

Source: Pakistan Automotive Manufactures Association (PAMA)

The total production of other types of vehicles ranging from motorcycles to farm tractors and SUV, Jeeps and Pick-Ups is depicted in the following table. Here again the trend observed does not present a clear pattern. The total production of motorcycles for an example, first increased from 736,861 motorcycles in the year 2009 to 838,665 in the year 2010. Then, however a fall of 10,089 produced motorcycles from the year 2010 to 2011 can be seen. Production of companies that do not belong to PAMA are not included in the calculations.

Table 9: Production of different type of Vehicles 2009-2013

Production of different type of Vehicles 2009-2013					
	2009-10	2010-11	2011-12	2012-13	2013-14
JEEP & LCV	1,172	883	451	1,475	1,217
PICK-UP / LCV	15,768	19,142	20,929	14,517	17,477
SUV (Sports Utility Vehicle)	0	0	0	0	0
FARM TRACTORS	71,607	70,770	48,120	50,859	34,521
MOTORCYCLES	736,861	838,665	828,576	819,556	771,507

Source: Pakistan Automotive Manufactures Association (PAMA) Sales

Sales

Sales of different types of vehicles in the Automotive Industry registered by the Pakistan Automotive Manufacturers Association can be seen in the following table. As is evident the total number of sales increased from a total of 955,211 vehicles sold in 2009 to a total of 1054,612 vehicles being sold in the following year 2010. An increase in sales was also seen in the next year 2011, however total sales fell from 1008,578 vehicles in 2012 to 945,758 vehicles in 2013. The sales of motorcycles contributed the largest amount to total sales in the industry followed by the sales of cars. From the year 2009-2013 no sports utility vehicles were sold.

Table 10: Sales of different type of Vehicles 2009-2013

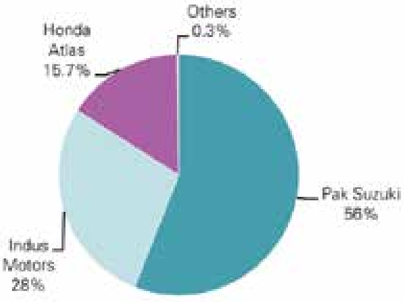
Sales of different type of Vehicles 2009-2013					
	2009-10	2010-11	2011-12	2012-13	2013-14
Cars	123,957	127,944	157,325	118,830	118,102
Trucks3,620	2,942	2,394	1,948	2,663	
Buses	657	515	609	510	577
Jeep & LCV	1201	807	342	1438	1151
Pick-up / LCV	16,496	17,746	21,472	15,042	17,635
SUV (Sports Utility Vehicle)	0	0	0	0	0
Farm Tractor	71,512	69,203	49,745	50,593	33,584
Motorcycle	737,768	835,455	829,893	820,217	772,046
Total Vehicles	955,211	1054,612	1061,780	1008,578	945,758

Source: Pakistan Automotive Manufactures Association (PAMA)

Market Share

The main market players in the car market of Pakistan are Honda Atlas, Dewan Farooque, Hinopak, Indus Motors, Mitsubishi, Pak Suzuki and Sigma Motors. As becomes evident by the number of market players Pakistan has a car market, which can be characterized as being quite concentrated. Three Japanese firms make eight models and the firms are Honda, Suzuki and Toyota. These three firms account for nearly all the car sales in Pakistan. The largest market share of passenger cars belongs

to Pak Suzuki, a market share of 56% followed by 28% market share of Indus Motors and 15.7% of Honda Atlas. The remaining 0.3% of market share belongs to other passenger cars.



Source: KPMG 2013

Consumers

The Pakistani automotive market is dominated by the passenger car market by consumers belonging to the middle to high income group. On the other hand the main consumers of trucks as well as buses are individuals and small business owners, this is due to the fact that bus transportation is mainly provided by individuals and small business operators (such as the Daewoo for example) under government licenses in Pakistan, because public transportation networks are underdeveloped. Large cars are the most popular in the car market of Pakistan and account for 49% of the total market. Consumer lending is done via vehicle loans, almost one half of the new cars sold in Pakistan are financed by bank loans or leasing companies.

AUTOMOTIVE TRADE (IMPORTS/EXPORTS)

Completely built up imports have been increasing persistently since the year 2009 and reached their highest in the year 2012, where they amounted to US $1.36 billion, on the other hand the imports of automotive parts fell in the year 2012. The exports of automotive parts however showed a consistent trend, whereas the completely built up exports declined in 2011 after having gradually increased after 2009. There are various factors leading to the fall in exports, the energy crisis of the country being one of the most significant ones. The three main countries to which Pakistan exported its automotive exports in 2013 were Afghanistan with a share of 9.5%, Nigeria with a share of 9.4% and Italy with a share of 7.6%. Major import countries were Japan from which 47.3% of total imports were imported, Thailand 22% of auto imports and China 11.7% of auto imports. Recently, there have been shifts in the policy of the government concerning imports of used cars. Restrictions on imports of used cars have been eased to a great extent in order to promote price competition in the automotive sector of the economy. The maximum depreciation charge for import duty purposes was increased from 50% to 60% of the cars value. Furthermore, the age limited for used cars was also increased to 5 years from 3 years. These policies by the government led to an increase in the supply to the local automotive market. The following table displays the form of government intervention through statutory regulatory orders (SROs) which the market structure of the automotive industry is sensitive too. These interventions by the government provide protection, exemptions and specific preferential treatment for production or trade to a sector or entity.

S.R.O's RELATED TO AUTOMOBILE IMPORT

S.R.O. 577(I)/2005 provides for tax exemption (custom duty, sales tax and withholding tax) on the import of used automobiles (meant for transport of persons).

S.R.O. 655 (I)/2006 enables the automotive vending industry to import duty-free raw materials, sub-components and sub-assemblies not locally manufactured. Earlier, the import of these components was subject to customs duty ranging from 5 per cent to 20 per cent. This exemption falls to conditions of importers having extensive in-house production facilities etc.

Under S.R.O. 656(I)/2006, the government exempted some components of automobiles from custom duties, subject to certain conditions. The importer has to be a certified assembler or manufacturer having suitable in-house facilities. The in-house facilities are further defined in Annex-A (not attached) of the SRO as having extensive assembling and manufacturing facilities. Moreover, a 10 per cent custom duty faced by CKD importers of motorcycles would be exempted if the importer complies with localization policies.

Under S.R.O. 693 (I)/2006, the government levied additional custom duties of between 15 and 35 per cent on the import of auto parts listed in Appendix-I and II of the SRO notification. Various auto parts under chapter 40, 57, 68, 70, 73, 82, 83, 84, 85, 87, 90, 94 and 96 were subject to the increased duties.

S.R.O 277 (I)/2010 provides for custom duty exemption on the import of new cars by a disabled Pakistani national.

S.R.O 172 (I)/2013 deals with tax amnesty on the seizing or voluntary submission of smuggled/duty free motor vehicles. The submission of such vehicles to custom authorities before a prescribed deadline would enable release of the vehicle on payment of a redemption fine.

Source: Ahmed, V. & Batool, S. (2015), Federal Board of Revenue (2014)

AUTOMOTIVE PARTS INDUSTRY

There are approximately around 1,600-1,700 companies operating in the automotive parts market in Pakistan. A large number of these are involved in the production of repair parts. 200-240 companies supply parts for OEM (original equipment manufacturer) production. These companies basically supply single unit parts, however some make components combining multiple parts.

In Pakistan, most of these are directly supplied to automakers, hence these are considered to be first tier suppliers and it can be concluded that the auto parts industry does not consist of clear multiple tiers, which may be seen in other various countries. The history of the automotive parts industry was originated in the nationalization phase in the 1970s, where automobile production in the country started in the form of CKD (complete knock down) production. Production equipment from various other countries as well as made parts such as cylinder blocks, castings and gears were introduced by various manufacturers. Due to privatization this parts industry expanded strongly later, with its growth accelerating in the 1990s, when localization of automotive parts became pervasive. The government announced the Product Specific Deletion Program (PSDP) to clearly define localization rules in 1995. The primary objective of protecting and fostering the domestic automobile industry and the requirement of automakers to achieve local content of over 70% was the responsibility of the PSDP. Hence, the parts industry resulted in steady growth in terms of production volume, whilst still having the objective to obtain international competitiveness in terms of quality and various other factors, since it is not subject to competition with foreign products. The Pakistani automobile industry faces the major issue in terms of improving its industry's competitiveness.

With the introduction of the Tariff Base System (TBS), its role ended in 2007, as TBS permits imports of parts that were locally available (provided that customs duties were paid) - hence, automakers were allowed to expand their sourcing choices. Strong competitive pressure is faced by local parts suppliers.

Under the TBS various automakers did make a switch to imports, these now are returning to local procurement due to the Pakistani Rupees depreciation (making imported parts more expensive). Raw materials as well as structural members for automotive parts are largely imported in Pakistan and increasing their local supply is a vital issue facing the automotive parts industry in the country.

INVESTMENT POLICY

In order to meet the local demand and supply gap in the Pakistani automotive Industry and to meet the willingness as well as interest of important international auto manufacturers to invest in the market, the government of Pakistan has set up rules and regulations for foreign investors resting on the production of good technology products that have features that meet consumers demands keeping environmental factors in mind.

The Automotive industry of Pakistan is still highly dependent on imports for various components and materials and exports remain marginal. The manufacturers and assemblers of vehicles have over the years developed a lot of parts and components locally. The following table depicts the salient features of the investment policy:

Table 11: Auto Industry Investment Policy (AIIP)

Auto Industry Investment Policy (AIIP)	
Definition New Entrant means a potential assembler / manufacturer of global significance who had no assembly / manufacturing of similar vehicles in Pakistan in the past and intends to assemble / manufacture a vehicle by himself or through an agreement with a Pakistani company.	
Eligibility criterion	
i)	In case of cars, the potential new entrant will have 500,000 units annual production in countries other than Pakistan.
ii)	The new entrant will have significant global presence by way of manufacturing at least 25,000 units of trucks and buses separately, 40,000 LCVs and at least 50,000 units in the case of Agriculture Tractors annually in countries other than Pakistan.
iii)	New entrant will have the plan for the progressive manufacturing of vehicles.
iv)	New entrant will have serious and demonstrable intention to develop parts locally either in-house or through the vendors to achieve competitiveness.
v)	New entrant will clearly identify the destinations in his plan or in agreement with its partners for export of vehicles and parts manufactured in Pakistan under this policy.
vi)	Registration to produce road worthy vehicles complying to environment standards, with the EDB, M/o IP&SI for the entitlement of benefits under the scheme.
vii)	Proof of land acquisition in the case of green field project or an agreement with the owner, in the case of existing assembly facilities.

viii)	A qualifying New Entrant will be required to submit a detailed business plan to EDB who will verify the complete in-house assembly/manufacturing facilities etc.
ix)	AIDC will assess the business plan and other relevant documents to determine the eligibility criterion and to qualify the potential new entrant for the entitlement of benefits under AIIP or otherwise.

Benefits: New Entrants will be allowed to import 100% CKD kit, at the leviable customs duty, for a period of three years from the start of assembly/manufacturing. Withdrawal of AIIP Incentive: Business plan duly submitted by the New Entrant to the EDB on a prescribed form will be evaluated before allowing any permission to start manufacturing. An annual assessment of business plan will be made to see any deviation and to determine as to whether the New Entrant has stayed on the course and has honored its commitment under the policy or otherwise. In case of any material deviation, EDB will initiate a suitable action after necessary verification that may lead to the stoppage or withdrawal of benefits allowed under the AIIP, with retrospective effect.

Source: Engineering Development Board Pakistan (2008)Industry Policy

INDUSTRY POLICY

As mentioned earlier the automotive industry of Pakistan is an industry, which is highly concentrated with only three multinational brands making eight models. This sector of the economy also has the highest tariff levels of all goods. The tariffs on the import of motorcycles are 65% and the tariffs for most of the components are 35%. These high levels of protection coupled with the fact that the local competition in the industry is also limited lead to high level of prices for consumers. Three main SROs, which are of fundamental importance for the automotive industry can be seen in the following Table 12.

Table 12: Three main SROs of particular importance for Automotive Sector

Three main SROs of particular importance for Automotive Sector
SRO 656(I)/2006 authorizes imports of completely knocked-down (CKD) kits and other inputs at concessionary duties.
SRO 655(I)/2006 allows the importation of certain raw material, components and other inputs at reduced rates.
SRO 693(I)/2006, which contains 40 pages with parts and components that have been localized and that attract additional duties when imported.

Source: WTO 2015

Based on the engine capacity taxes are levied on the import of used vehicles. These vehicles do not include vans, buses and trucks. An overview of the taxes for imported vehicles can be seen in the following Table 13:

Table 13: Taxes for Imported Vehicles

Type of Vehicle	Taxes US $
Up to 800 cc (Asian makes only)	4,800
Up to 800 cc (other than Asian makes)	7,200
From 801 cc to 1000 cc	6,000
From 1001 cc to 1300 cc	12,000
From 1301 cc to 1500 cc	16,900
From 1501 cc to 1600 cc	20,500
From 1601 cc to 1800 cc excluding jeeps (Asian makes only)	25,400

Source: WTO 2015

The Automotive Industry functions within a rubric of various policies and regulations. These include the Industrial Policy, Trade Policy, the Finance Acts which adjust the tariff and fiscal system backed by the SROs (Statutory Regulatory Orders) and the Customs General Orders, the Auto Development Program 2008-2012, the Tariff Based Scheme and the National Environmental Quality Standards.

The Tariff Based System (TBS) replaced the Deletion Program in 2006 and was designed in a manner to protect the local industry and the promote it. The TBS was established after consultation and dialogue with all the stakeholder of the Automotive Industry including Vendors, OEMs, and manufacturers also from the sub-sectors of the Automotive Industry. The basic framework of the TBS is as under the following points as displayed in the following Table 14

Table 14: Basic Framework of TBS

Basic Framework of TBS
1. Imports in CKD condition would be allowed only to assemblers having adequate assembly facilities and registered as such by the concerned Federal Government Agency.
2. Parts/ components indigenized by June 2004 have been placed at higher rate of Customs Duty
3. Parts not indigenized would be allowed at CKD rate of Custom Duty.

Source: EDB 2014

The Auto Development Program AIDP was the government's plan announced in 2007 which had a duration of 5 years. It was established due to the changes in the industrial policies of the government, which were prompted by its WTO membership. Pakistan had imposed localization requirements as policy measures under the Deletion Program in the 1990s to strengthen the domestic industry. However, because of the TRIM covenant of the WTO the Tariff Based System was created. With the TBS a detailed development program for the automotive industry was developed and was summarized and publicized as the AIDP. The AIDP is divided into tariff issues and nontariff issues. The non-tariff issues are human resource development, productive asset investment incentive, technology acquisition support scheme, auto cluster development, auto industry investment policy and the auto industry development committee.

The new Auto Development Policy 2014-2019 was under preparation as at November 2014 and the main purposes is to achieve horizontal and vertical growth in the industry. It aims to benefit the consumers by providing them with a greater portfolio of products, this is to be achieved through market expansion and rather than higher taxation as was the case in the previous Auto Development Policy. The government aims to increase investment in the sector by lowering, the entry thresholds. Furthermore, it aims to create a rational import policy for the import of used cars and improve the tariff structure of the automotive sector.

OPPORTUNITIES

Pakistan is an emerging market for automobiles as well as automotive parts and thus offers huge business as well as investment opportunities. There is high potential for growth in this sector as in Pakistan there are about 9 cars per 1000 persons, which indeed can be considered as the lowest in the emerging economies. Moreover, the rising per capita income could contribute to stimulate the opportunity of this increasing demand.

Furthermore, new companies with technological know-how are highly in demand by the local industry. The import of German technology, training and skill upgrading programs can be of immense importance, as it would provide opportunities to benefit from the German know-how as well their technology in terms of improving the productivity, quality and for the marketing and development of value-added products. In comparison to a global average of 341 Pakistan has a small motorization rate of 18 vehicles per 1000 persons. This factor coupled with the fast urbanization in the country makes it quite evident that there is huge potential in the automotive sector. Standard of living is improving in the country and income levels are also increasing hence vehicle purchases are expected to increase.

Also, the new Auto Development Policy which is under preparation, aims to increase consumer choice - thus, again signifying the importance of investment and diversification in the sector. Market expansion is to be achieved by lowering entry thresholds creating an investment conducive environment for also foreign firms to enter the market and compete.

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