Automotive

MANUFACTURING AUTOMOTIVE SECTOR

The sector provides employment to 3.5 million people and plays a pivotal role in sustaining a blossoming vendor industry. It contributed 2.8% to GDP in 2012, with turnover of over PKR 300 billion

The sector recorded a positive growth of 23.43 percent. Buses, LCVs, trucks and jeeps & cars registered growth of 81.95 percent, 68.53 percent, 41.68 percent and 29.73 percent, respectively.

Pakistan has the second highest number of CNG-powered vehicles in the world with more than 1.55 million cars and passenger buses, constituting24% of total vehicles in the country.

The sub sectors, accessories and part manufacturers have 3,200 units for automotive industry with an investment of PKR 9.2 million, employing 1.8 million people and producing annually around 2 million parts for motorcycles and vehicles.

Pakistan producing 70 cc motorcycles, and now, even new 125 cc bikes are also being exported. The industry has achieved 95% localization through latest technology transfer, a large amount of rupee worth of investment and hundred thousand skilled workers.

Industry Snapshot

Market size:	Production Capacity of 765,195 units in 2014-15
Market players:	Honda Atlas, Pak Suzuki, Indus Motors, Mitsubishi, Dewan Farooque, Sigma Motors, Hino Pak
	Domestically manufactured parts account for around 60% of all components as compared to a targeted 80%-85% and producers rely heavily on imports of key components.
Sales	Auto {cars and light commercial vehicles - LCV) sales experienced cyclical decline towards the end of each calendar year as consumers delay purchase decisions for registrations in the new year.

The Opportunity

The number of passenger cars per 1,000 people will reach 14 by 2017, up from 12.6 in 2012. Pakistan's penetration rates are thus lower than those prevailing in other countries in the region. For example, in India, the number of passenger cars per 1,000 populations is forecast to rise from 18.4 to 27.8 in the same period. This shows potential in this sector of Pakistan.

Vehicle loans will continue to make up a significant proportion of consumer lending, and will thus play a significant role in the expansion of car ownership in Pakistan. Leasing companies or bank loans finances nearly one half of new car sales in the country.

The motorcycle sector has progressed tremendously over the years due to consistent policy of the government, while it gave protection to local investors to expand the businesses locally as well as globally.

Pakistan is only a minor emitter of CO_2 in the global context, being responsible for less than 1% of the world's greenhouse gas emissions; and expects Pakistan to remain well down the list of countries in terms of CO_2 emissions.

The GoP decision to allow exemption of customs duty and other taxes on import of Hybrid Electric Vehicles (HEVs) having engine capacity upto 1,200 cc, which would lead to a trimmed oil import bill besides promoting pollution- free environment in the country. For import of HEVs having engine capacity from 1,201 cc to 2,500 cc, concession of customs duty and other taxes are also allowed

The removal of 5% excise duty (passed on to the customers) will enhance sales growth. Fall in steel prices has massively reduced the cost of production of vehicles

Automotive Development Policy (ADP) 2016-21

The Government of Pakistan has announced Automotive Development Policy (ADP) 2016-21 in March 2016. A Committee constituted by the Economic Coordination Committee of Cabinet has formulated the Automotive Development Policy (2016-21) which envisages development plans for the automobile industry in the country to facilitate higher volumes, attract investment, ensure enhanced competition and offer higher quality in line with emerging opportunities within the country and in the region and to create a balance between industrial growth and tariffs to ensure sustainability for all stakeholders and attaching prime importance to consumer welfare. In addition, the policy provides consistency and predictability for new investors with a mid-term policy review mechanism to cater for emerging developments to achieve car production of over 350,000 by the year 2021. The salient features of the policy are:

i. Lower the entry threshold for New Investment;

ii. Create enabling tariff structure for development of the Automotive Sector;

iii. Rationalize automobile import policy;

iv. Provide regulatory and enforcement mechanisms for Quality, Safety and Environmental Standards;

v. Establishment of Pakistan Automotive Institute;

vi. Ensure Consumer Welfare through provision of quality, safety, choice and value for money;

vii. Other Interventions, and

viii. Reorganization

The auto-part industry is a potential prospect that shows encouraging signs. Investments from Japanese car manufacturers is also on the horizon as many big Japanese auto-industries investors are seriously planning to shift their units to Pakistan from Thailand due to volatile environmental conditions. In brief, the automobile sector of Pakistan has just touched the tip of the iceberg and there are numerous opportunities. The new auto policy will be instrumental to attract more investment in to this sector.

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