

Boosting the Auto Industry

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Sequence

- Recent policy research on the sector
- Sector Highlights
- Policy Prescriptions

Recent policy work done on Auto-Sector

Key Policy Studies Contributing to Evidence

- Regional Study on the Auto Sector, IDEAS
 - Faisal Bari, Nazish Afraz, Nadia Mukhtar, Usman Khan, Turab Hussain
- Engagement with Punjab under CPEC: Proposed framework; IGC
 - Nazish Afraz, Hassan Khawar, Ijaz Nabi
- Policy Reforms for Punjab's Priority Business Sectors, BERF
 - Usman Khan, Nazish Afraz & Hina Sheikh

Sector Highlights

Contribution by the sector to the National Economy

- 16% of the national manufacturing sector, US\$ 6Bn per annum in Value
- Direct employment of over 200,000 in the sector
- Over two million motor vehicles produced annually
 - 88% are two wheelers
- Auto parts industry enjoy a derived demand based on vehicles
 - Over 2,000 manufacturers specializing in range of production technologies
 - Exports of over US\$15 million, but a strong potential
 - Lahore and Karachi are the main hubs

Factors that make Auto Sector a Promising Opportunity

- Production in automotive is organized in Global Value Chains
 - Lighter and more expensive parts sourced from competitive locations
 - Heavier parts sourced from locations closer to assembly lines
- Geographic proximity with China – large automotive manufacturer
 - Significant investment in technology and R&D, domestic demand on rise
- CPEC infrastructure offers connectivity to large Chinese market
- Auto parts from Pakistan already being exported to developed markets
- Large technology and employment (E.g. motorbikes) spillover impacts

4 Dimensional Analysis

1. Economic Benefit

- Domestic demand of vehicles increasing
- 4 investors coming in post incentives offered in New Auto Policy 2016-21
- Exports of auto parts can increase, Chinese FTA not helpful at the moment
- Pakistan can potentially manufacture for Chinese GVCs
- New entrants likely to increase competition
- Potential JVs to enhance integration opportunities

4 Dimensional Analysis

2. Social Inclusiveness

- In Punjab over 22,000 employed directly, and over 200,000 by vendors
- Globally, auto sector has the second highest employment multipliers
- Current Human Capital suited for Tier 2/3 Firms

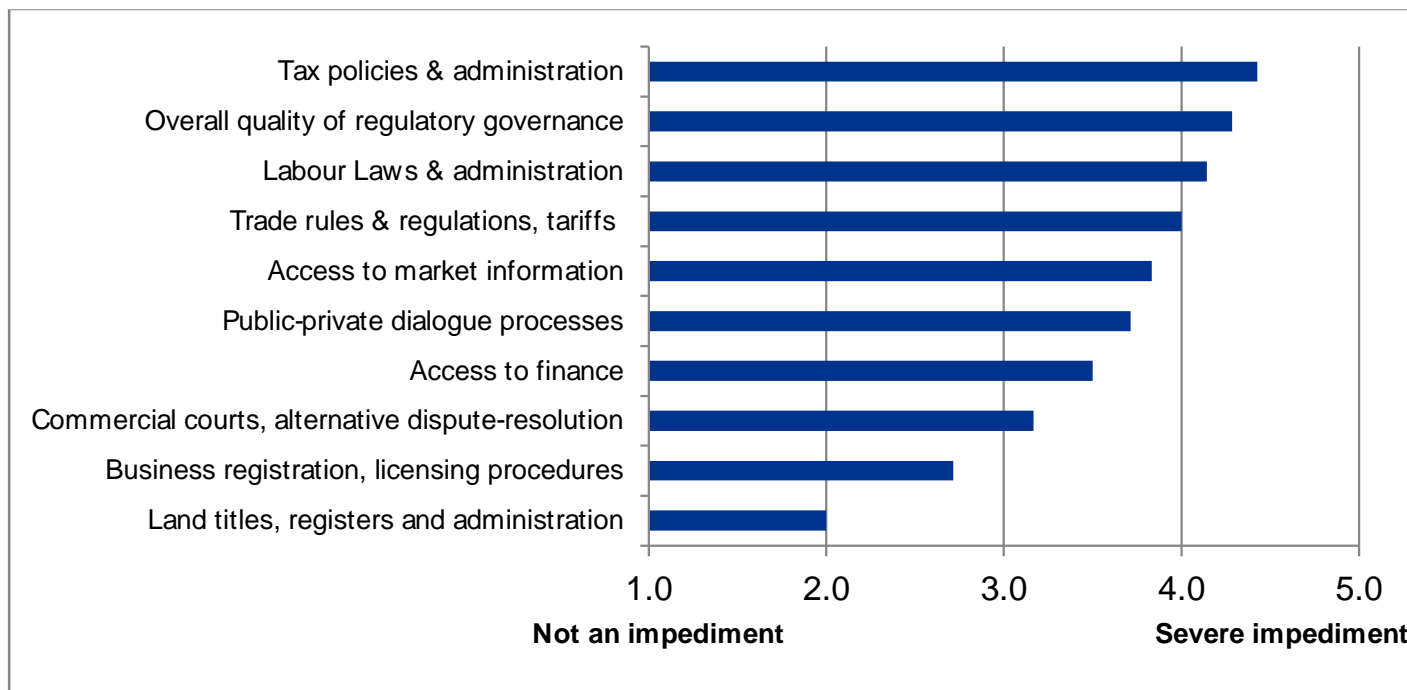
3. Innovation

- Pakistan is still at basic level, globally one of the most innovative
- China GVC offers significant opportunities

4. Environmental Sustainability

- Generally considered a clean manufacturing process
- Environmental impact in use varies, Pakistan has no national standards
- Manufacturers usually follow international standards

Business Environment Issues



Source: Field data collected for BERF Report (Auto-part manufacturers based in Lahore)

Policy Prescriptions

Policy Outcomes

- Punjab must advocate for preferential access under Pak-China FTA
- Explore JVs and market access under CPEC to integrate with China's GVC
- Increase emphasis on human capital development
 - Upgrade higher education and TVET
 - Provide incentives and institutions that support R&D
- Incentivize technology acquisition for innovation, especially with China
- Punjab must advocate for consistent and long-term taxation policy
- Current Auto Policy offers no incentives for R&D and Technology Acq.
 - Advocate for revision – incentivize innovation

Policy Outcomes

- Need for phased national auto standards and a regulatory body
 - To upgrade quality and ensure access to competitive markets
- Regulatory framework required for periodic assessment of competition
 - To avoid monopolistic behaviors
- Public-private dialogue needs to be strengthened, more inclusive
- Government should support access to information
 - Markets, technology and partnerships
- Explore possibilities of outward investments in Motorbikes & Tractors
- Enhancing credit to SMEs

Thank you