

# Boosting the Auto Industry

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# Sequence

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- 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
- Assessment of the Lahore Auto & Auto-parts Cluster
  - Cluster Development Initiatives, GoPunjab and UNIDO

# 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
- Over two million annual production
  - 88% are two wheelers
- Auto parts enjoy a derived demand
  - Over 2,000 manufacturers specializing in range of production technologies
  - Exports of over US\$15 million, potential

## Lahore Production Capacity Installed

### 4-wheeler OEMs



Honda Atlas: 40,000 U

Millat Tractors: 60,000 U

### 3-2-wheeler OEMs



3-wheeler: 74,000 U

2-wheeler: 2,080,000 U

### Under Evaluation / Planning

Hyundai Nishat, Renault, BAIC

## Karachi Production Capacity Installed

### 4-wheeler OEMs



Gandhara Nissan Ltd., Master Motors

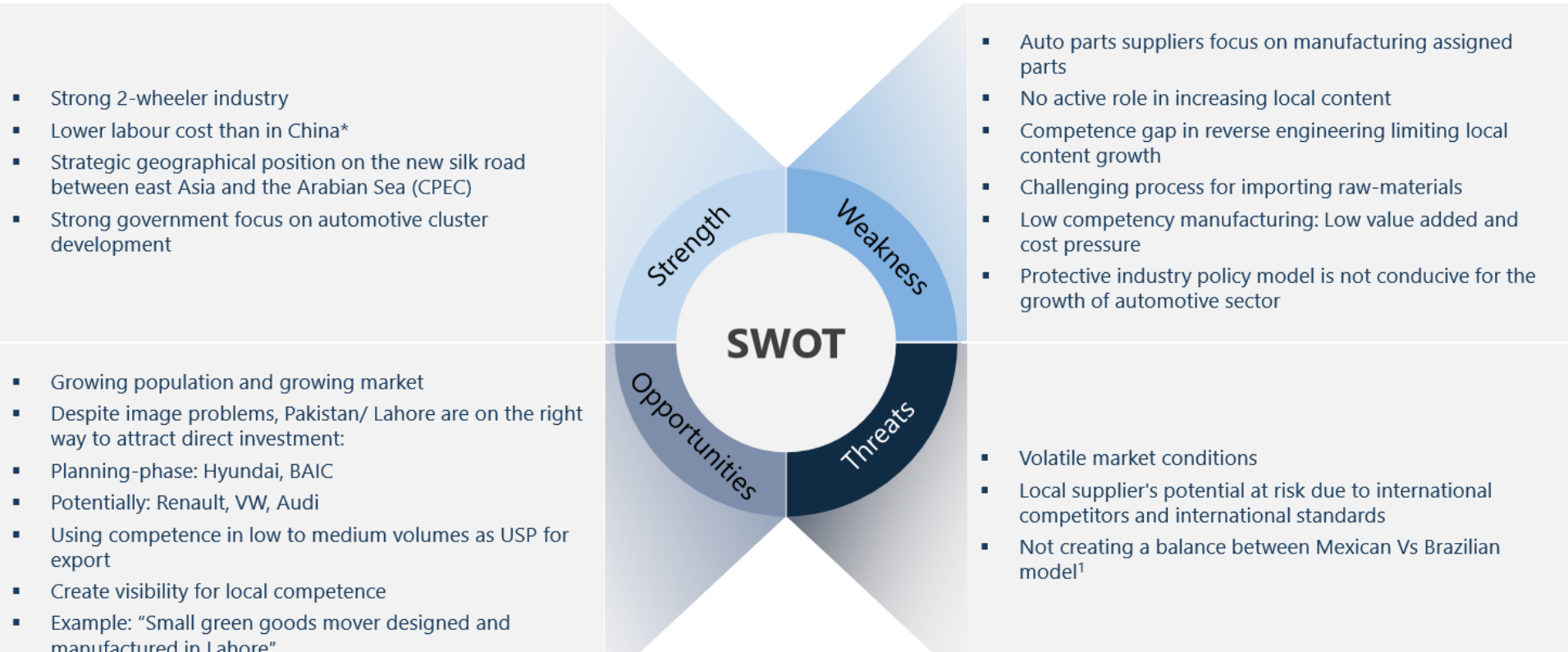
Mitsubishi, Indus Motor Toyota, Pak

Suzuki

### Under Evaluation / Planning

VW Commercial, AUDI

# SWOT of the Auto & Auto-parts Sector (Lahore cluster)



# 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
  - FTA-2; in 313 product lines – over \$20 billion in imports of auto-parts
- 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 (long-term trend)
- Investors coming in post incentives offered in New Auto Policy 2016-21
- Exports of auto parts can increase
- 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

- Over 0.5 million direct and indirect employment
- Globally, auto sector has the second highest employment multipliers
- Current Human Capital suited for Tier 2/3 Firms

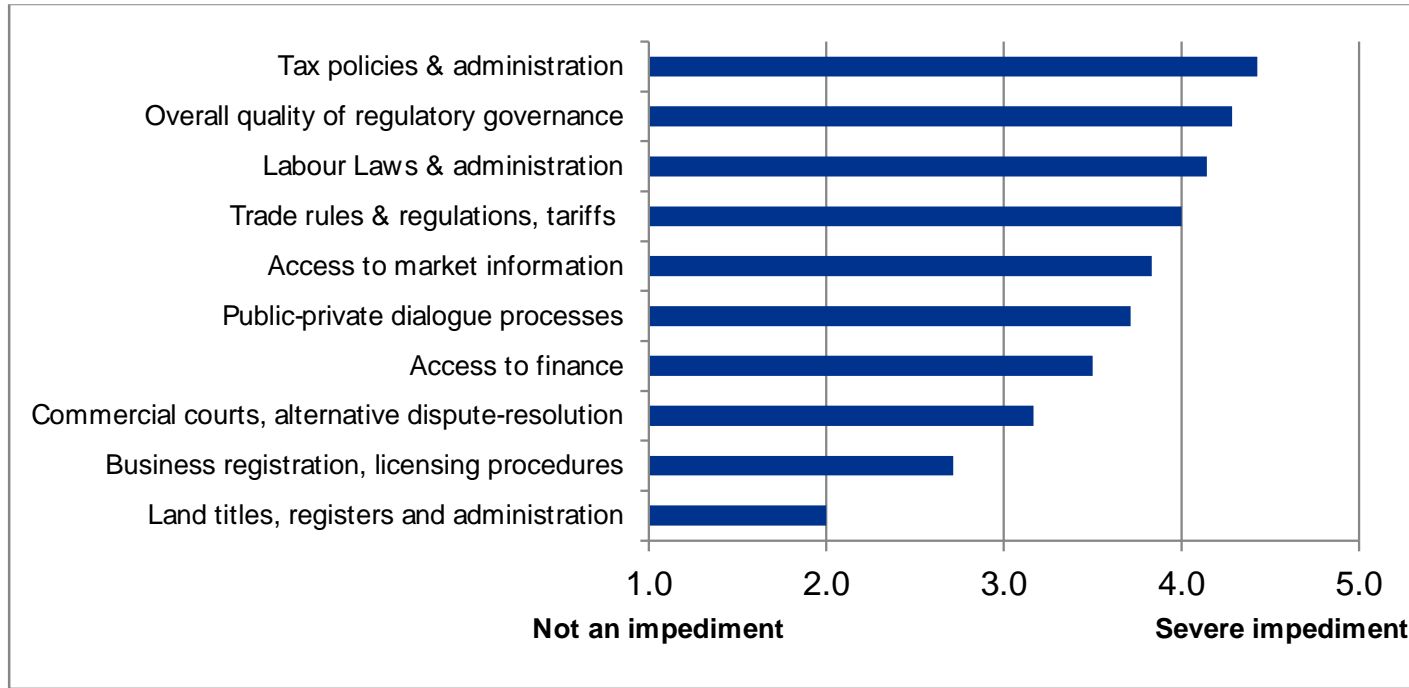
## 3. Innovation

- 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



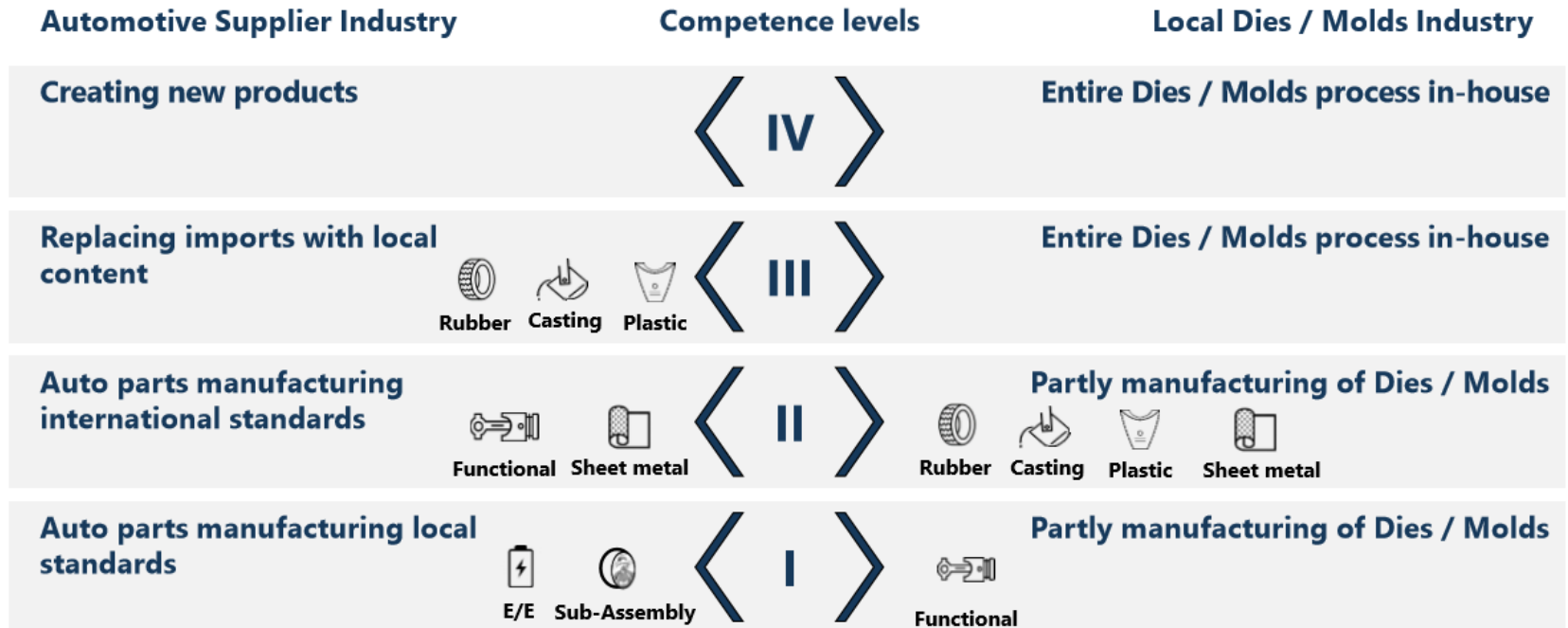
Source: Field data collected for BERF Report (Auto-part manufacturers based in Lahore)

# Focusing on D/M Capacity is the Key

Today's Dies / Molds competence mainly in level I and II

Further localization of Auto parts will require Dies / Molds competence level III

Product innovation in Auto parts will require Dies / Molds competence level IV



# Policy Prescriptions

# Policy Outcomes

- Facilitate manufacturing to gain from Pak-China FTA
- Whole VC of D/M must be supported at the cluster level
- 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
- Consistent and long-term taxation policy – **Monitoring of policy incentives**
- 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**