

Normalising Automobile Trade between India and Pakistan: Concerns and Way Forward

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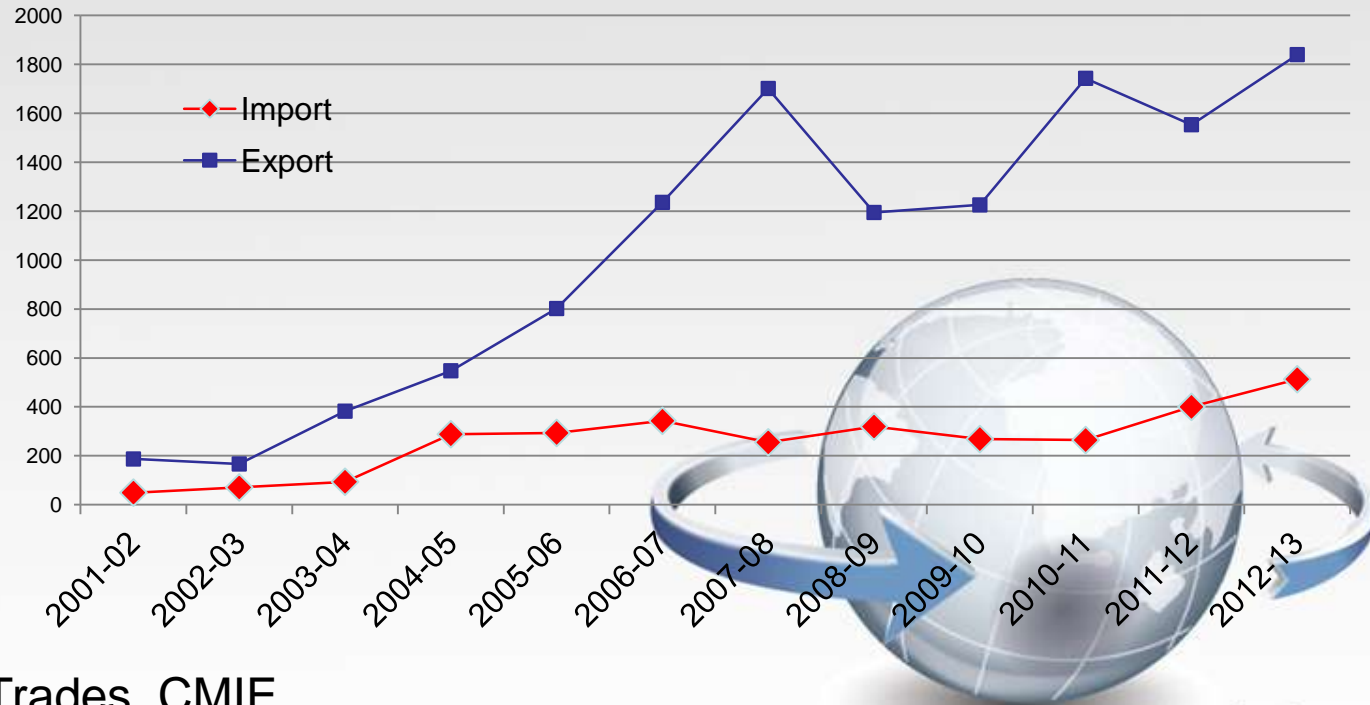
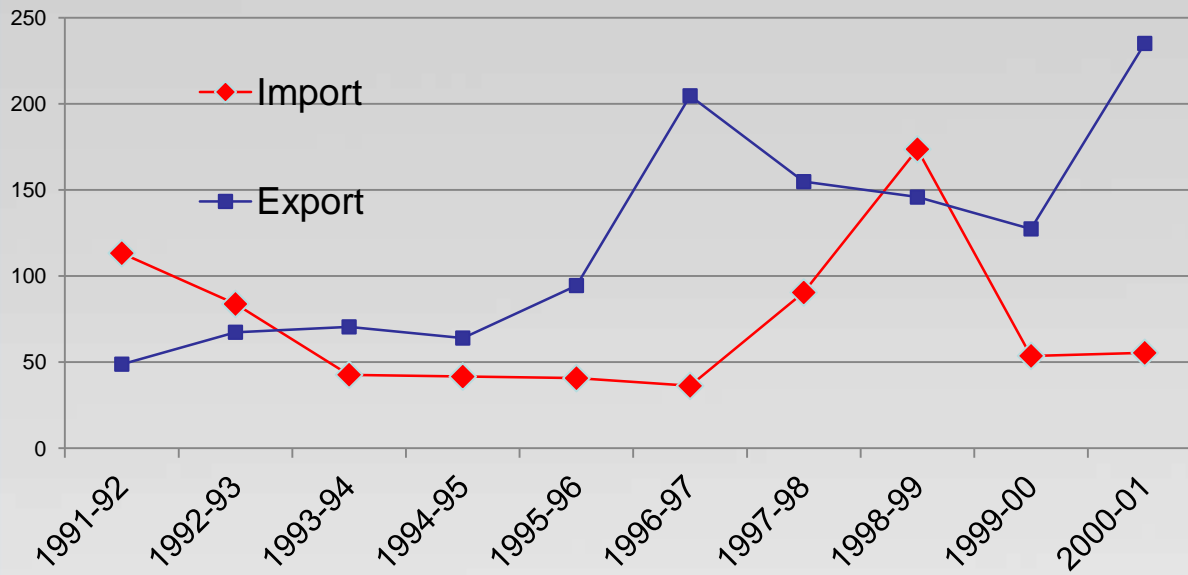


Background

- India Pakistan trade has a chequered history
- Both the countries joined WTO in 1995 and India offered MFN status to Pakistan in 1996. On the contrary, Pakistan allows import from India on the basis of a 'Positive List'.
- Until 2011, Pakistan allowed through 'Positive List' only 1,946 items to be imported from India.
- In November 2011, Pakistan decided to accord MFN status to India and in March 2012, it shifted to a 'Negative List' .
- Currently, Pakistan's Negative List comprises of 1,209 items which are not allowed to import from India.
- This is also important to note that only 137 items are declared as importable from India through the Wagah land border crossing.
- Since last couple of years, the total trade between these two countries have crossed US\$2 billion mark and in 2012-13, it has touched US\$2.4 billion. Pakistan's exports increased by 28% and for India the increase was of 19%.



India's exports and Imports to/from Pakistan (US\$ Million)



Source: India Trades, CMIE

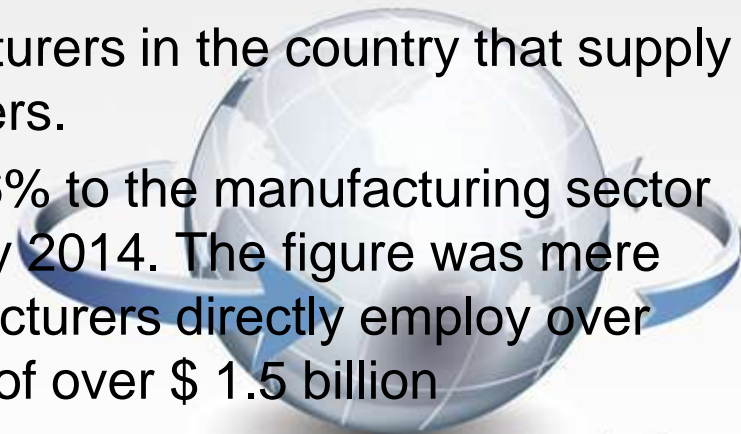
Negative List and Automobile Industry

- It is important to note that India's automotive industry is unable to export because most automotive components (385 under HS8 or 167 under HS6) are still under negative list of Pakistan.
- There is a significant growth in Pakistani automotive market in recent time. With the normalisation of trade there is a scope of increasing exports from India to Pakistan.
- Also, Pakistan has gained comparative advantage in some components too and they are interested to export to India.
- There is large scale misconception about the prospect due to lack of past data.
- Communication gap among the manufacturers both side has also added fuel in this. As a result, automobile sector has remained as one of the main stumbling blocks for normalising the trade relation between India and Pakistan.



Automobile industry in Pakistan

- Car industry saw a major boom during 2006-07 when sales figure touched 180,834.
- However, since then industry is struggling to reach the same level. During 2012-13, total car sales have been around 120,332.
- The total contribution of Auto industry to GDP in 2007 was 2.8% and it was expected that it would rise to 5.6% by 2012.
- There are 32 assemblers including multinationals with their equity participation engaged in progressive manufacturing / assembling of different automobiles under the approved deletion program of the Ministry of Industries and Production, Government of Pakistan. There are also more than 50 assemblers/manufacturers of motorcycles and three wheelers.
- There are also 500 auto-parts manufacturers in the country that supply parts to original equipment manufacturers.
- During 2007, auto sector contributed 16% to the manufacturing sector which was expected to increase 25% by 2014. The figure was mere 6.7% during 2001-02. Vehicles' manufacturers directly employ over 192,000 people with a total investment of over \$ 1.5 billion



Automobile industry in Pakistan

- Major Assemblers
 - Pak Suzuki, Indus Motors (Toyota), Atlas Honda, Dewan Farooque (Hyundai) , Dongfeng Motors, Ghani automobiles, Ghandhara Nissan, Hinopak, Master Motors, Millat Tractors, Al Ghazi Tractors, etc

Production Figures (in Numbers)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	CAGR 08/09- 12/13
1300 and Above cc	50310	39478	60360	62111	66299	60223	11.14
1000 cc	48495	16149	23330	25287	28888	12785	-5.67
800 cc & Below 1000cc	65905	28681	37957	46574	59068	47324	13.34
Total cars	164710	84308	121647	133972	154255	120332	9.30
Trucks	4993	3135	3425	2901	2597	1923	-11.50
Buses	1146	657	628	490	568	522	-5.59
Total trucks & buses	6139	3792	4053	3391	3165	2445	-10.39
LCVs, vans & jeeps	1590	932	1172	883	451	1475	12.16
Pick ups	21354	16158	15768	19142	20929	14517	-2.64
Farm tractors	53256	59968	71607	70770	48120	50859	-4.04
Motorcycles & three-wheelers	641031	493592	736861	838665	828576	819556	13.51

Source: PAMA

India's Automobile Production Trends (Number of Vehicles)

Category	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Passenger Vehicles	1,777,583	1,838,593	2,357,411	2,982,772	3,146,069	3,233,561
Commercial Vehicles	549,006	416,870	567,556	760,735	929,136	831,744
Three Wheelers	500,660	497,020	619,194	799,553	879,289	839,742
Two Wheelers	8,026,681	8,419,792	10,512,903	13,349,349	15,427,532	15,721,180
Grand Total	10,853,930	11,172,275	14,057,064	17,892,409	20,382,026	20,626,227

India's Automobile Exports Trends (Number of Vehicles)

Category	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Passenger Vehicles	218,401	335,729	446,145	444,326	507,318	554,686
Commercial Vehicles	58,994	42,625	45,009	74,043	92,663	79,944
Three Wheelers	141,225	148,066	173,214	269,968	362,876	303,088
Two Wheelers	819,713	1,004,174	1,140,058	1,531,619	1,947,198	1,960,941
Grand Total	1,238,333	1,530,594	1,804,426	2,319,956	2,910,055	2,898,659

Evolution of Automobile Industry and Policy in Pakistan

- **Four Phases of Development**
 - Nascent period (1949 – 1971);
 - Nationalization period (1972 – 1982);
 - Partnership with the private sector (1983 – 1990);
 - Post privatization (1991 to present).
-
- During the period 1985-2005 Pakistan's automobile policy was based on the formulation and implementation of compulsory local content conditions, commonly referred as deletion programs. Deletion programs worked on the basis of Industry Specific Deletion Programs (ISDPs) and Product Specific Deletion Programs (PSDP). All local manufacturers were given permission for local assembly of Japanese cars with the explicit understanding that the manufacturers will steadily reach a certain 'deletion level' thus increasing the local content of automobile parts and giving up the concessional tariffs being availed by them under their specific 'deletion programmes'.



Automobile Policy in Pakistan

- Following the notifications S.R.O. 656(I), 693(I) and 655(I) of 2006 (amended many times), several production activities have been put under 'Annex-A'. In this case, importer or assembler needs to have suitable in-house facilities or having commercial relationship with another component manufacturer who has in-house production facilities. These companies are required to have facilities as defined in Annex-A as per the guidelines or a gradual localisation plans as advised by Engineering Development Board. They are also allowed to import specific components with a discount.

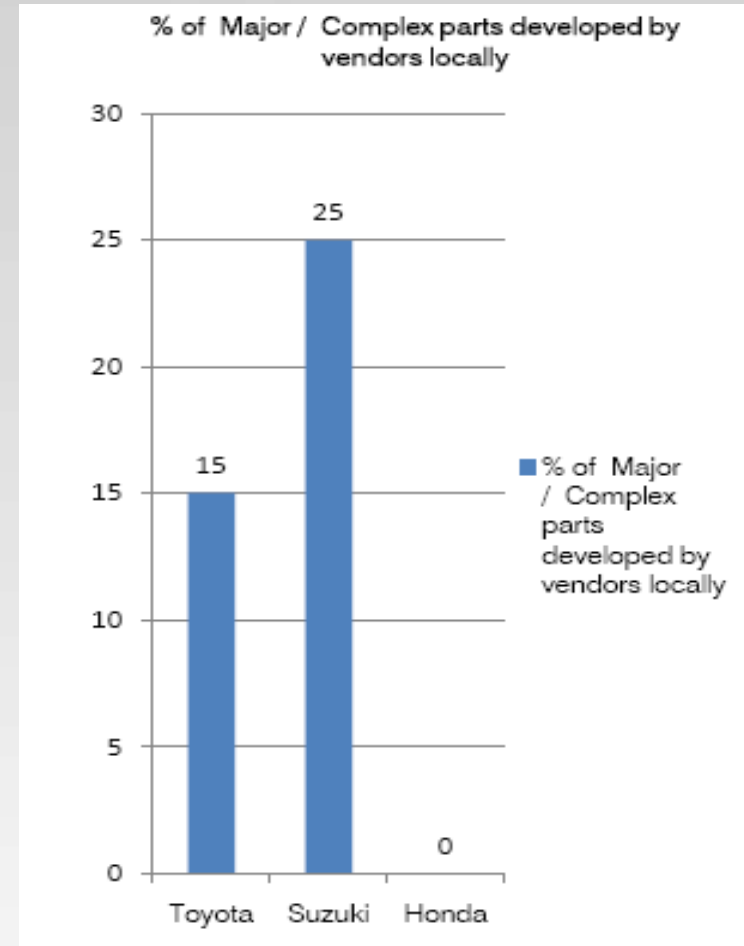
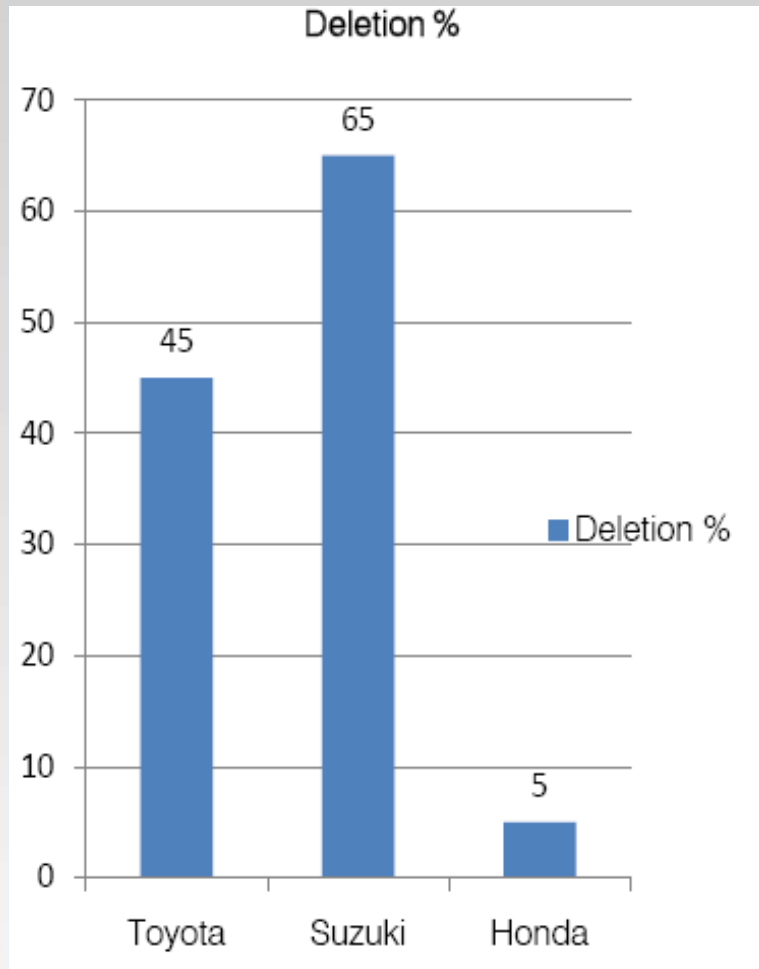
Vehicle Type	Minimum Production activity under Annex A
Cars and LCVs	Body welding shop, Body Paint shop, Vehicle Final Assembly (Trim line, Chassis line and Final Line with multiple stations), Performance testing facility, Inspection equipment, storage
HCVs	Main Chassis Frame Assembly and/or Riveting line, Axle Assembly, Welding Shop, Paint Shop, Vehicle Final Assembly (Trim line, Chassis line and Final Line with multiple stations), Performance testing facility, Inspection equipment, storage
Tractors	Engine Assembly, Paint Shop for Sheet Metal and Chassis, Vehicle Final Assembly, Performance testing facility, Inspection tools/equipment, storage, Test rigs for Endurance testing for safety, Availability of drawings of components,
Motorcycles and Motorcycles Rickshaws	Frame Welding Shop, Body Paint Shop, Engine Assembly and Testing, Frame Assembly Fixtures, Final Assembly Tools, Final Inspection and Storage
Stroke Auto rickshaws	Frame Welding Shop, Body Paint Shop, Engine Assembly and Testing, Final Assembly, Final Inspection Tools, and Storage

Evolution of Automobile Industry and Policy in Pakistan

- In 2006, Pakistan shifted to 'tariff based' system to protect the nascent component industry and also uphold localisation strategy. It did not matter much to the assemblers but has posed many challenges to the vendors who remained comfortable in the previous system and are now pushed to improve the quality, supply systems, shop floor efficiencies and better marketing. This is because; importers can import many components even paying higher duties.
- However, due to the robust strategy the rate of localisation was significant especially for tractors and motorcycles. As per current information from PAAPAM, for tractors localisation has reached almost 95% and in case of motorcycles it has reached between 90-92%. But in case of cars, localisation level is still less than 70%.



Localisation of Automobile Industry in Pakistan



The most successful localisation happened in case of Suzuki Meheran



Localisation of Automobile Industry in Pakistan

Japanese supports the technology transfer directly to local vendors through parts, drawings and process sheets.

However, in absence of good infrastructure and manufacturing facility at the SME level, Japanese companies have not been very successful in providing technological assistance to local companies.

Along with this, the absence of adequate Quality Control Standards and lack of competition at the vendor front have resulted in deteriorating quality of final products

Due to non availability of expensive quality control equipment, many of the precision safety components are imported.

Some companies have the opinion that non availability of R&D facilities in automobile industry, lack of highly skilled manpower and well developed infrastructure are the main hindrance for the indigenous development of the component sector.



Localisation of Automobile Industry in Pakistan

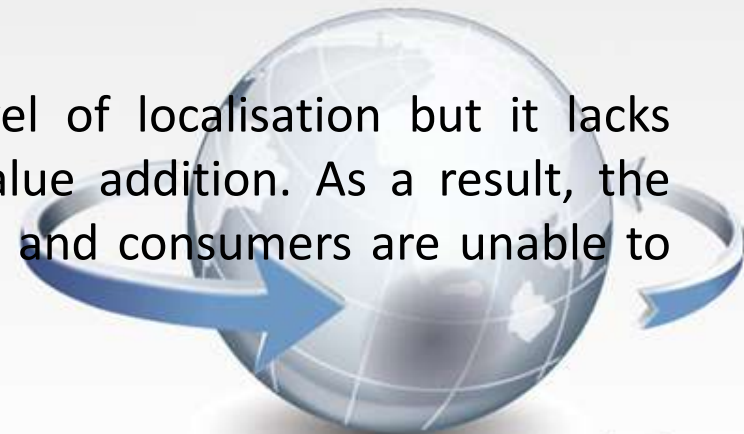
This indicates that only 'deletion programme' is not sufficient for localisation of component industry.

Automobile industry is very dynamic. Consumer choice, comfort and safety, design, IT driven accessories, etc are driving the industry.

Government requires to encourage the development of R&D centres, schools for advanced learning of auto technology, development of quality control instruments which create an enabling environment for the component industry to grow.

Apart from this, competitions among component manufacturers are also important to drive local innovation.

It seems Pakistan has achieved some level of localisation but it lacks capability to move to the next level of value addition. As a result, the entire industry is stuck to only few models and consumers are unable to have wider choice.



Pakistan's Import Structure of automotive products

Import of Vehicles (Numbers)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Cars	60,554	88,130	66,338	36,563	202,785	540,025	425,721	750,888	675,810	1,079,828
Jeeps	6,010	11,435	5,409	2,108	1,938	210	14	27	27	28
Motor Rickshaw	101	3	3	15	1,727	1,029	125	10,811	14,746	45,564
Station Wagon	440	154	37	284	2,817	345	28	109	29	30
Buses Including Trolley Buses	1,230	2,429	411	2,104	652	217	232	285	861	580
Lorries/Trucks Including Ambulance	14,036	2,883	2,616	13,463	16,610	4,331	2,405	12,819	24,728	9,238
Special Lorries, Trucks & Vans	54	95	1,544	551	573	875	1,203	5,325	3,371	627
Motor Cycle	143,952	127,861	189,721	167,626	164,078	209,098	200,745	175,577	215,990	315,001

Source: Ashfaq Ahmed Tunio (2013): An Overview of the Auto Sector in Pakistan; Monthly Economic Review; March 2013



Value of Pakistan's Import of Vehicles under HS 87 and Major Components (Top Products)

HS Code	Description	Import Value (US\$ 000) in 2012	Share in Total vehicle Import (%)	5 year CAGR (%)
870120	Road tractors for semi-trailers	14628.79	1.15	17.68
870190	Wheeled tractors nes	37982.68	2.98	7.69
870210	Diesel powered buses with a seating more than 10	51620.60	4.05	18.41
870290	Other Buses (CNG, LPG, others)	39132.50	3.07	4.46
870321	Cars (not exceeding 1000 cc)	290441.32	22.80	10.19
870322	Cars (more than 1000 cc, not exceeding 1500 cc)	400407.05	31.43	28.40
870323	Automobiles (more than 1500 cc, not exceeding 3000 cc)	151281.91	11.87	26.01
870324	Automobiles (exceeding 3000 cc)	30587.57	2.40	20.56
870421	Diesel powered trucks with a GVW not exceeding 5 tons	79106.34	6.21	12.37
870422	Diesel powered trucks with a GVW more than 5 tons but not exceeding 20 tons	28803.44	2.26	0.98
870423	Diesel powered trucks with a GVW exceeding 20 tons	24881.95	1.95	26.27
870431	Gas powered trucks with a GVW not exceeding 5 tons	35407.78	2.78	49.22
870590	Special purpose motor vehicles nes	39975.57	3.14	31.91
	Total Import of Vehicles	1274081.41		

* Total import consists import of other vehicles also and hence is not the sum of listed products

Source: Calculated from COMTRADE database available from WITS

Value of Pakistan's Import of Parts and Accessories (Major Products)

HS Code	Description	Import Value (US\$ 000) in 2012	Share in Total Import of components (%)	5 year CAGR (%)
848410	Gaskets of metal sheeting combined	89438.05	11.70	33.49
840734	Engines, spark-ignition reciprocating, (cyl cap 1000 cc)	74694.98	9.77	43.44
851150	Generators and alternators	64148.71	8.39	5.28
851230	Sound signalling equipment	60041.45	7.85	-7.47
848220	Bearings, tapered roller	39838.22	5.21	-1.39
870790	Bodies for tractors, buses, trucks	39152.81	5.12	2.76
400829	Rods and profile shapes of non-cell	36625.37	4.79	53.00
851140	Starter motors	35657.12	4.66	8.85
842123	Oil or petrol-filters for internal	21503.11	2.81	34.39
848230	Bearings, spherical roller	19712.89	2.58	22.72
732619	Articles of iron or steel, forged or stamped	19330.62	2.53	45.55
853929	Filament lamps (others)	17286.80	2.26	16.87
731823	Rivets, iron or steel	17123.16	2.24	7.37
851110	Spark plugs	15910.58	2.08	19.36
870899	Motor vehicle parts nes	15728.59	2.06	26.46
870850	Drive axles with differential w/n provided with other transmission components	14398.48	1.88	28.67
	Total Import parts and accessories including machinery*	764544.70		

* Total import consists import of other components also and hence is not the sum of listed products Source: Calculated from COMTRADE database available from WITS

Source wise Pakistan's Import of Vehicles and components for assembly (CKD) under HS 87

(value in US\$ 000)

HS Code	Description	World	China	Japan	Korea Rep	Rest of the World
870120	Road tractors for semi-trailers	14628.79	4518.78	9353.58		756.43
870190	Wheeled tractors nes	37982.68	1871.23	3845.39		32266.06
870210	Diesel powered buses with a seating more than 10	51620.6	15430.36	31269.11	4423.65	497.48
870290	Other Buses (CNG, LPG, others)	39132.5	27900.03	6525.14	2483.28	2224.05
870321	Cars (not exceeding 1000 cc)	290441.32	5315.38	276130.68	51.94	8943.32
870322	Cars (more than 1000 cc, not exceeding 1500 cc)	400407.05	293.37	304961.22	135.65	95016.81
870323	Automobiles (more than 1500 cc, not exceeding 3000 cc)	151281.91	454.44	76401.73	83.65	74342.09
870324	Automobiles (exceeding 3000 cc)	30587.57	249.91	17622.13	494.91	12220.62
870421	Diesel powered trucks with a GVW not exceeding 5 tons	79106.34	797.52	19303.04		59005.78
870422	Diesel powered trucks with a GVW more than 5 tons but not exceeding 20 tons	28803.44	4824.96	19588.19		4390.29
870423	Diesel powered trucks with a GVW exceeding 20 tons	24881.95	2286.56	20746.64		1848.75
870431	Gas powered trucks with a GVW not exceeding 5 tons	35407.78	167.61	34738.33		501.84
870590	Special purpose motor vehicles nes	39975.57	2331.31	7657.41	3.25	29983.6

Export from India will be mostly substitutive or it will compete with RoW

Major Sources of Pakistan's Import of Auto Components in 2012 and tariffs

(US\$ Thousand)

HS Code	Description	China	Indonesia	Japan	Korea Rep	Thailand	Rest of the World	Share of RoW in Total Import (%)	Tariff (2011/12)
848410	Gaskets of metal sheeting combined	13108	80	61895	31	6445	7879	8.81	35.00
840734	Engines, spark-ignition reciprocating, (cyl cap 1000 cc)	1513	638	11947	69	48404	12123	16.23	35.00
851150	Generators, alternators	17786	78	4078	458	14	41735	65.06	35.00
851230	Sound signalling equipment	4556	543	17153	2463	13425	21902	36.48	35.00
848220	Bearings, tapered roller	11253	13	1108	222	3	27239	68.38	10.00
870790	Bodies for tractors, buses, trucks	23687	682	8953	0.39	4132	1698	4.34	50.00
400829	Rods and profile shapes of non-cell	15126	18	11	1	0.46	21469	58.62	35.00
851140	Starter motors	14413	33	7904	155	2197	10955	30.72	35.00
842123	Oil or petrol-filters for internal	8767	1	717	78	47	11893	55.31	35.00
848230	Bearings, spherical roller	1899	63	1495	185	57	16014	81.24	10.00
732619	Articles of iron or steel, forged or stamped	1285	70	622	70	290	16993	87.91	0 & 10
853929	Filament lamps (others)	5667	0	852	226	96	10445	60.42	20 & 35
731823	Rivets, iron or steel	3089	11	615	67	151	13191	77.03	20.00
851110	Spark plugs	1931	1	368	26	127	13458	84.58	10.00
870899	Motor vehicle parts nes	1124	55	2084	52	51	12363	78.60	35.00
870850	Drive axles with differential w/n provided with other transmission components	3972	69	903	122	2133	7200	50.00	35.00

Bilateral trade under HS code 87 (Vehicles and Parts thereof)

(US\$ Million)

HS Code	Commodity Name	India's Exports to Pakistan				India's Imports from Pakistan			
		2006/07	2009/10	2010/11	2011/12	2006/07	2009/10	2010/11	2011/12
87	Vehicles and parts and accessories thereof.	2.59	0.23	0.32	0.12	0.39	0.09	0.43	1.43
8701	Tractors (other than tractors of heading 8709)	0.01				0.06			
8702	Motor vehicles for the transport of 10 or more persons	1.36							
8703	cars	0.06	0.01	0.02	0.02				0.23
8706	Chassis fitted with engines,	0.51							
8708	Parts and accessories of the motor vehicles	0.28	0.16	0.05	0.05	0.32	0.09	0.43	1.16
8709	Works trucks, used in factories, warehouses and docks	0		0.01	0.01				0
8711	Motorcycles (including mopeds)	0			0			0	
8712	Bicycles and other cycles	0.13		0.1	0.02		0		
8713	Carriages for disabled persons,			0.02					
8714	Parts and accessories of vehicles of headings 8711 to 8713	0.24	0.06	0.13				0.01	0
8715	Baby carriages and parts thereof							0	
8716	Trailers and semi-trailers; parts thereof							0	0.03

Derivation of potential trade between India and Pakistan is difficult due to lack of past data

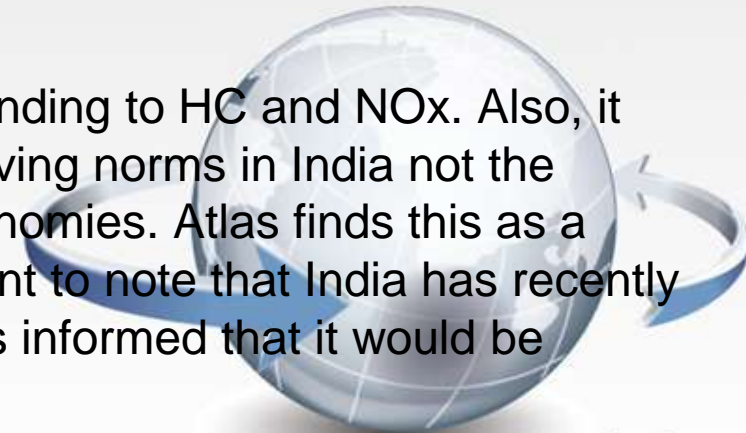
Critical Issues from Pakistan

- There is a fear that the increased imports from India will have a major negative impact on Pakistani domestic industry.
- Automobile consists of large number of SMEs which also provide employment to thousands of people and hence the fear is genuine.
- Pakistani industry is also divided into two groups: in favour or against of opening to India
- Pak Suzuki is in favour as Suzuki has large set up in India.
- Indus Motors take up a balanced view and favour a both way trade
- Atlas Honda wants to protect domestic motorcycle industry and wants to export to India
- **Why Import cars and components from India:** Proximity, advantage of large economies of scale and thereby low price of components, cultural similarity thereby reduces the cost of adaptation and R&D, etc.
- By changing source of automobile components from Japan and Thailand to India, Pakistan can save substantial amount of foreign exchange. This is important to note that the cost of importing from Japan got almost doubled in last five years due to depreciation of Pakistani Rupee against Japanese Yen.



Critical Issues from Pakistan

- It is reported that Indus has requested Toyota Headquarters to equally support both of its affiliates in India and Pakistan because some car components of Toyota cars are cheap in Pakistan and some are cheap in India. So, both of Toyota affiliates will grow if they collaborate with each other. For example, Toyota is now producing critical components of cars such as Etios, Innova, Fortuner in India which is expectedly less costly than those from Japan and Thailand. Importing from India to Pakistan will definitely reduce the price of the final car. Indus is interested to export to India few products such as special type of sheet metals, chemicals for paints, etc.
- One of the major issues is the difference of environmental standards between India and Pakistan. To export to India, Pakistan has to convert its vehicles to Euro/Bharat IV standards.
- Atlas has raised concern about the uniqueness of emission standards related to Indian motorcycles.
- India follows a joint emission level corresponding to HC and NOx. Also, it follows India Drive Cycle (IDC) following driving norms in India not the WMTC which is practiced in developed economies. Atlas finds this as a major NTB from Indian side. This is important to note that India has recently made testing under WMTC optional and it is informed that it would be mandatory in couple of year's time.



Critical Issues from Pakistan

- Pakistan is in favour of FDI in HCV sector and Indian companies such as Tata, Mahindra may look for opportunities.
- Tractor manufacturers such as Millat are interested to export to India. However, more studies are required to understand the nature of NTBs imposed on tractor imports in India as the apprehension of NTBs (emission and homologation related) affecting tractor export from Pakistan is widely present.
- Pakistani manufacturers are also concerned about the layers of centre and state taxes levied in India. This is important to note none of these are country specific barriers and hence, both countries are required to find out practical solution to handle these policy issue.



Critical Issues from Pakistan

Frequency Distribution of MFN rates of the auto products under Negative List

MFN Duty (%)	Frequency
0-15	7.8
15-25	4.9
25-30	6.5
30-35	65.9
35-50	3.4
50-75	8.1
75-100	3.4

More than 85% products in the list attract duties which are less than 35%.

Pakistan is also worried about India's ability to enter Pakistani market with a lower tariff under SAFTA once MFN status is given to India. Currently out of 385 auto components which are there in the negative list, some products are related to Annex-A activities. Companies which have required level of in-house facilities can import these products at lower rate (average is around 20.6%) but normal MFN duty for them are much higher. Average duties for non Annex-A products are 32.5%. It is argued that average duties of all these products under SAFTA is around 5% only and given the MFN status, India will be able to enter Pakistani market with much lower rate and thereby will jeopardise domestic auto industry which are dominated by SMEs.



HS code wise Number of Common Products under India-Pak Negative List and SAFTA Normal Track list

	No of Products
HS 40	7
HS 48	3
HS 68	2
HS 72	2
HS 73	3
HS 76	1
HS 82	3
HS 83	3
HS 84	4
HS 87	10
HS 90	7
HS91	4
HS 94	3
HS96	2

We have juxtaposed the SAFTA duties vis-a-vis MFN duties and noticed that only 14% products (54 in numbers) have duties 5% under SAFTA scheme for which India can take advantage.

All other products are still under SAFTA sensitive list, for which domestic producers in Pakistan enjoy protection as per as competition from India is concerned.

Let us now examine what are these products in which India has advantage. For example, under HS 87, there are 10 products in which India can have easy market access in post MFN scenario. These products are cash carrying vehicles, carriages for disabled persons, saddles, engine components for motorcycles, etc. Under HS 90, various meters for measuring temperatures, revolution etc. are there in the list. These clearly indicate the product profile in which India will have relatively easy entry. Hence, the fear that India will wipe out the domestic industries is not true to a large extent.

Conclusion

- Pakistani manufacturers are apprehensive about import of auto components from India. We cannot do any simulation or trend analysis as there was minimal trade in the past. This has added the fear as we are unable to establish the scientific basis.
- However, from the trade data it is clear that India will mostly compete with China and Thailand in Pakistan.
- It is possible that major Japanese players will partly divert their import from India. This will clearly reduce cost of production and consumers may be offered with variety of models.
- Apprehension that India will enter through SAFTA route is also largely not correct as most of the negative list products are also present in SAFTA Sensitive List.
- India and Pakistan being two major players in South Asia can reap the benefit through collaboration. This can increase their exports to Middle East, Central Asia and Africa.
- Hence, joint ventures among the players should be encouraged.
- Dedicated JV auto park may be developed near the border for smooth functioning of production network.

