India-Pakistan Trade
A Case Study of the Automobile Sector

SDPI

Sustainable Development Policy Institute

Study Objectives

- To analyze the competitiveness of the auto-industry vis-à-vis India
- To explore automobile import and export patterns of India and Pakistan
- To identify various hindrances impeding cross-border trade in automobiles
- To see whether India and Pakistan can be potential import partners in automobiles

Background

- Auto sector annual growth rate from 6.2% in 2007-08 to 18.2% in 2011-12
- Auto-industry's annual contribution to GDP amounts to $3.6 billion
- Contributes 16% to value addition in the manufacturing sector
- It also generates 215,000 direct job opportunities
- Contributes $0.82 billion to the revenue collection through indirect taxes (CCP 2012).

Evolution of Pakistan's Automotive Industry

1950s
- Establishment of National Motors Limited (NML)

1970s
- **Nationalization**
- Establishment of Pakistan Automobile Corporation (PACO)

1980s
- **De-Nationalization**
- Initiation of joint projects between PACO and private enterprises, development of automotive parts industry

1990s
- **Post Privatization**
- Re-emergence of private sector: Pak Suzuki Motors, Indus Motors, Honda Atlas Cars, Dewan Farooq Motors, Adam Motors, Proton, Nexus Auto

Based on JICO (2011) and CCP (2012)

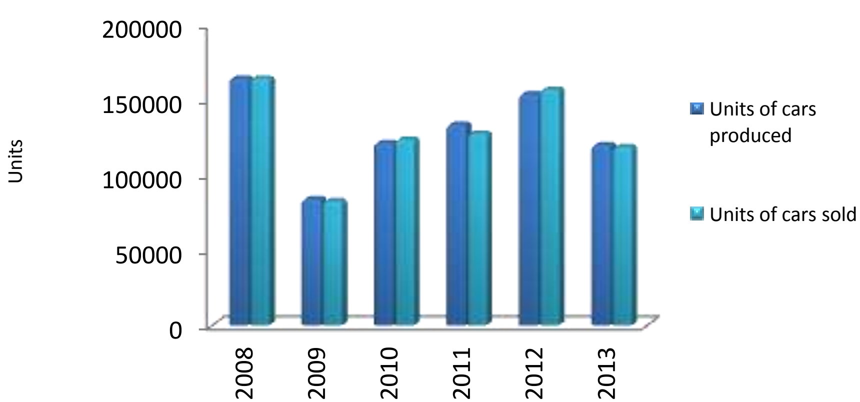
Firm-level Specifications of Automobile Sector in Pakistan

Manufacturers	Installed Capacity (Nos. per annum)	Turnover 2011-12 (PKR Million)	Contribution to Exchequer (PKR Million)
Pak Suzuki Motor	150,000	58,531	17,302
Indus Motor	54,800	77,000	24,700
Honda Atlas Cars	50,000	30,275	10,664
Dewan Farooque Motors	20,000	-	8
Sigma Motors	1,320	998	236

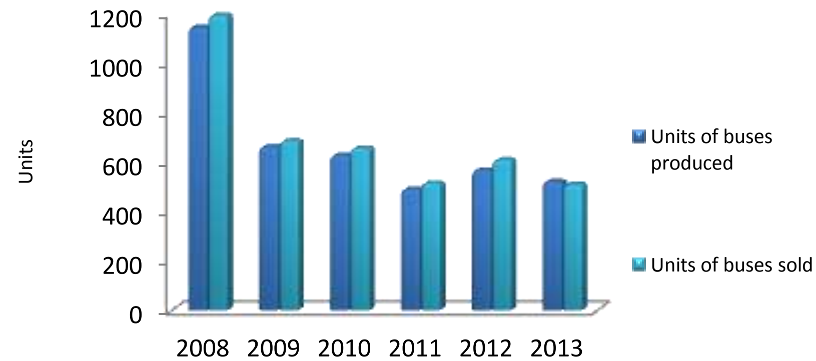
Source: PAMA, 2013

Production and Sales Position

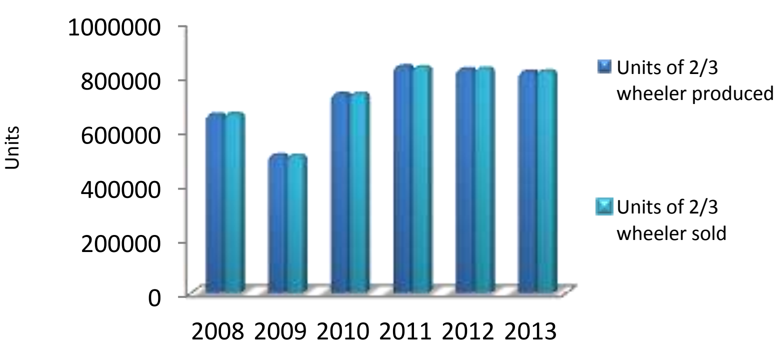
Year-wise production and sale of cars



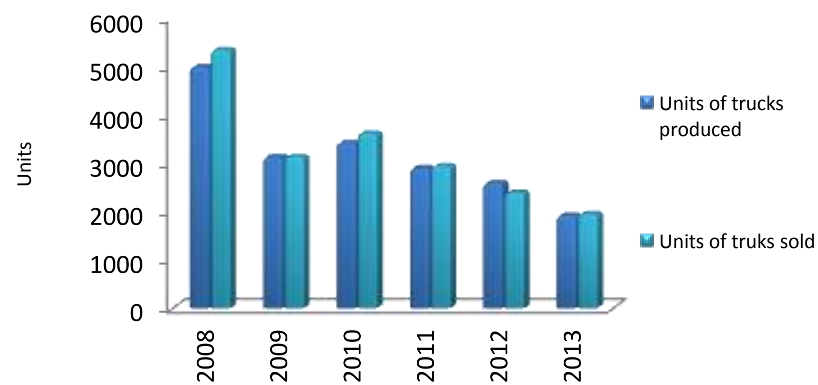
Year-wise production and sale of buses



Year-wise production and sale of 2/3 wheelers

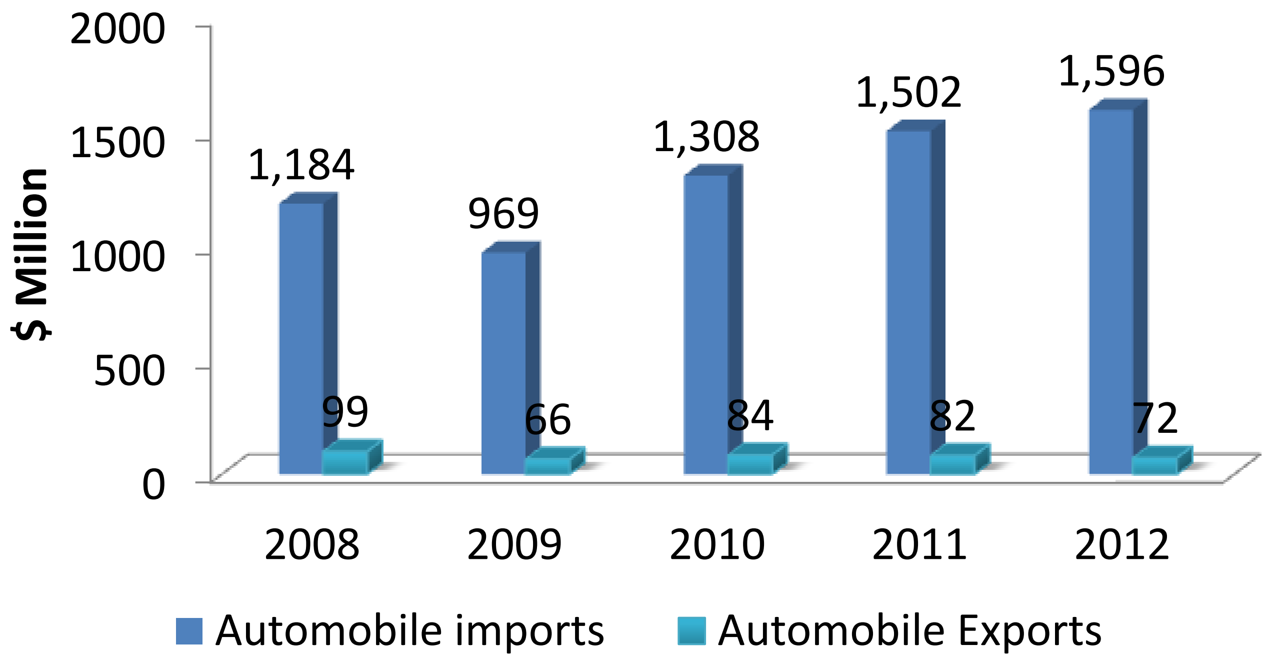


Year-wise production and sale of trucks



Data source: PAMA, 2013

Automobile Imports and Exports of Pakistan



Source: ITC Trade Map, 2013

Auto Sector Import Policy in Pakistan

- Despite discouraging policies regarding import of used cars, a large number of cars are imported every year
- With demand of cars rising exponentially, local manufacturers could not meet demand
- As many as 500 independent dealers were involved in the selling of used cars at nearly double the prices of the locally manufactured cars in 2009 (JICO, 2011)
- Key reasons for preferring imported vehicles include road safety, quality of parts and advanced technology

Trading Partners of Pakistan in Automobiles (2012)

Export partners	Exported value 2012 (USD thousand)	% Share in Pakistan's Automobile exports	Import partners	Imported value 2012 (USD thousand)	% Share in Pakistan's Automobile imports
Afghanistan	12553	17.5	Japan	916508	57.4
Nigeria	6293	8.8	Thailand	239557	15.0
Bangladesh	5762	8.0	China	179349	11.2
Italy	5696	7.9	Singapore	41235	2.6
United Arab Emirates	5108	7.1	United Kingdom	39303	2.5
United States of America	4686	6.5	Germany	36740	2.3
Kenya	3250	4.5	Belarus	31748	2.0
Algeria	2671	3.7	United States of America	22958	1.4
Sudan	2461	3.4	Turkey	17015	1.1
Libya	2012	2.8	Indonesia	14071	0.9

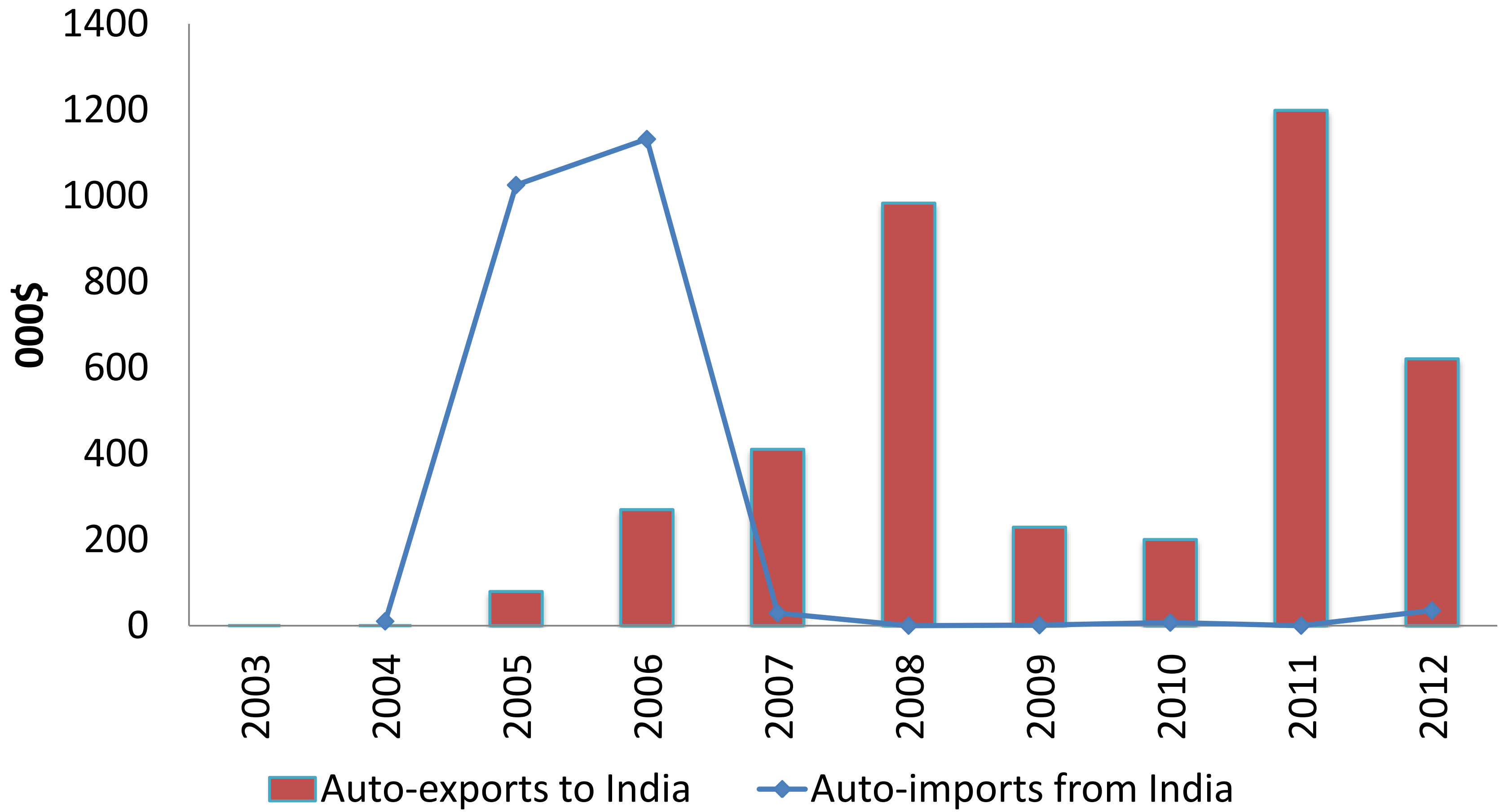
Source: ITC Trade Map, 2013

Trading Partners of India in Automobiles (2012)

Export Partners	Exported value 2012 (USD thousand)	% Share in total auto-Exports of India	Import Partners	Imported value 2012 (USD thousand)	% Share in total auto-Imports of India
USA	1017027	8.3	China	1034878	20.8
South Africa	974872	8.0	Germany	788602	15.8
United Kingdom	641100	5.3	Korea, Republic of	753245	15.1
Sri Lanka	638648	5.2	Japan	587273	11.8
Algeria	508672	4.2	Thailand	275650	5.5
Bangladesh	412692	3.4	United States of America	245652	4.9
Mexico	397194	3.3	Spain	150297	3.0
Colombia	378892	3.1	United Kingdom	146896	3.0
Singapore	366278	3.0	Italy	130417	2.6
United Arab Emirates	361290	3.0	Czech Republic	109142	2.2

Source: ITC Trade Map, 2013

India-Pakistan Bilateral Trade in Automobiles



Source: ITC Trade Map, 2013

Bilaterally Traded Auto-products (2012)

Pakistan's Imports from India			Pakistan's Exports to India		
Product code	Product label	Value in 000$	Product code	Product label	Value in 000$
870899	Motor vehicle parts n.e.s	20	870840	Transmissions for motor vehicles	252
870190	Wheeled tractors n.e.s	12	870899	Motor vehicle parts n.e.s	241
870321	Automobiles w reciprocatg piston engine displacg not more than 1000 cc	2	870829	Parts and accessories of bodies n.e.s for motor vehicles	128
870990	Work truck parts	1			

Source: ITC Trade Map, 2013

Auto Imports of Pakistan from the rest of the world compared with India (2012)

Product code	Product label	Value of imports from India (000$)	Value of imports from the rest of the world (000$)
870899	Motor vehicle parts n.e.s	20	1528274
870190	Wheeled tractors n.e.s	12	584811
870321	Automobiles w reciprocatg piston engine displacg not more than 1000 cc	2	735018
870990	Work truck parts	1	7424

Source: ITC Trade Map, 2013

SDPI Study on Informal Trade (India → Pakistan)

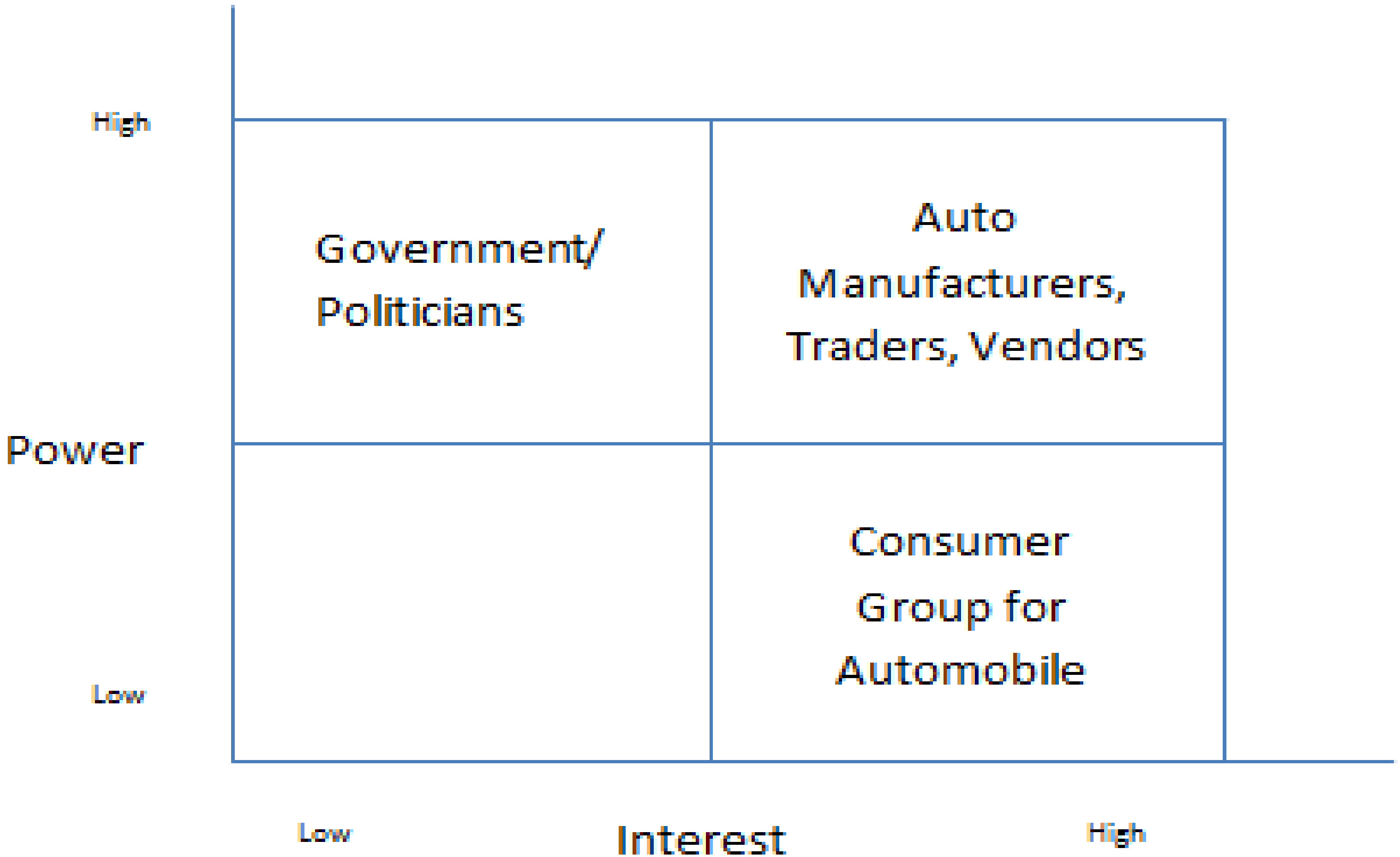
- Automobile sector: USD 5.7 million
- Tyres: USD 170 million

- Routes:
  - Dubai, Afghanistan, and Afghan Transit Trade (ATT) main sources
  - Leakages from the transit containers also play a role in informal trade
  - Indian tyres are primarily supplied via the ATT route
  - There is evidence of indirect trade via Dubai, Thailand and Singapore

Average Effective Price of Automobile (2012)

Engine Size	Price in India (PKR)	Price in Pakistan (PKR)	Difference (PKR)
800 CC	247521	520000	272479
1000CC	446700	737000	290300
1300CC	702332	1474000	771668
1800 CC	1230600	1839000	608400

Power-Interest Matrix of Stakeholders for Bilateral Trade in Automobiles



Unbundling the Stakeholder's Matrix

- Consumers: auto industry has been a recipient of subsidies and has remained protected through tariff and NTBs. Only a few groups have control over prices and consumers get exploited

- Assemblers: traditionally opposed to trade; fear dumping from India due to its large economies of scale; cost of production in Pakistan is higher

- Traders: Trade with India can imply cheaper import of intermediate goods. Consumer demand high for Indian parts

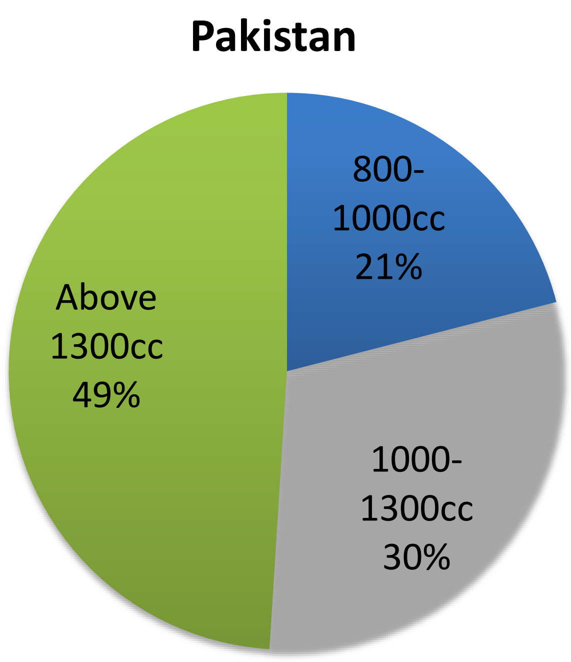
- Government (with disclaimer): Allow CKD trade and gradually allow trade in CBU

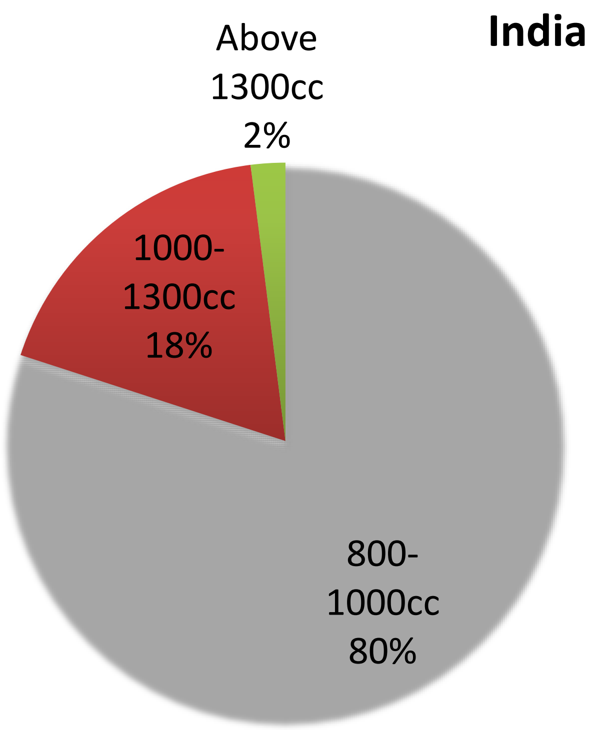
Unbundling the Stakeholder's Matrix

- The matrix is evolving
- Pakistan Suzuki has given up its opposition to imports from India
- Key reasons include:
  - Better environmental standards of Indian vehicles
  - More economical prices of inputs and final product

Comparison of Auto Sales in India and Pakistan

Case for Supply Chain Integration





Source: JICO, 2013

NTBs Facing Auto Sector Exports of Pakistan

- Custom levies arbitrarily imposed
- State-level tariffs not explicitly documented
- India has restrictions on importing automobile through 145 import entry points
- Sample tested more strictly in case of Pakistan
- In case of tractors parts rejected as they look weapon-like
- OEMs (original equipment manufacturer) do not accept auto parts from Pakistan
- Lack of fork lifters at Attari damaging the products
- Emission standards are also set too high. These standards are even high than those of EU and Japan. India requires auto-products to comply with Bharat-I and Bharat-II standard. The measuring method of this standard is quite different from the international method which acts as a barrier to import

Indian Import Duties for 2-wheelers

- Pakistani 2- wheelers subject to high tariff rates
- Other additional charges such as port expenses (almost 3%) and incidences of clearance (2% of the CIF value)
- Even if custom duty is removed, other taxes accounts for over 25% duties. Moreover, these tax figures exclude cost of approvals, permissions and certifications which further increase the cost of export to India. This makes the export of two wheelers to India nearly impossible.

Views from Pakistan Association of Automotive Parts & Accessories Manufacturers

- First invest in *capacity development* of the local automobile manufacturing before opening auto trade with India
- Pakistan should first consider 'technology transfer' from India. This can also take a form of *Foreign Direct Investment* (FDI) by Indian auto-manufacturers
- Pakistan currently follows the EU quality standards while testing whereas India demands testing only by Indian standards (past perception)
- Indian government must ensure Pakistan a significant amount of auto-import from Pakistan in order to assure mutual gains
- There are concerns that Indian auto manufacturers are more interested in importing raw materials (CKD) rather than CBUs and that India may practice '*dumping*' which would be detrimental to Pakistani auto industry
- Auto-import policy with India should be focused on '*selective buying*' from India. Those products which are not manufactured in Pakistan should be given priority
- Negative list can be removed without granting MFN to India

Way Forward – Some Examples

- Argentina-Brazil agreement of 1999 in auto trade, where by duty free exports from Brazil were linked to its import from Argentina. Today 80 percent of Argentinian units are bought by Brazil. It is also noteworthy that such an arrangement helped sharpen Argentina's competitive advantage in auto sector – which represents 13 percent of total exports of the country.

- Canada-US auto sector agreement of 1965. Under this arrangement for every US car sold in Canada, the US manufacturer had to produce one unit in Canada. This not only employed local labour force but also allowed for technology transfer. Today Canada's production of automobile is close to 2.6 million units with the auto parts production valued at USD 35 billion. This example can be replicated in case of India-Pakistan as both countries have formally liberalized the bilateral investment regime.

Thank You

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