

PAKISTAN AUTOMOBILE INDUSTRY AND WTO

ANWAR IQBAL

PAKISTAN automobile, engineering and vendors industries are worried of the post - WTO scenario specially with the provisions of Trade Related Intellectual Property Rights (TRIPS) and Trade Related Investment Measures (TRIMS). In the context of deletion they would be seeking exemption up to 2005, in present condition it is very difficult to obtain such exemption. Resultantly government of Pakistan may have to remove concessionary import duty structure being enjoyed by local engineering industries, which are operating under deletion regime. Thus the engineering sector shall have to take immediate corrective measures particularly to improve efficiency and management practices / policies.

The automobile and automobile vendor industry is said to enjoy the status of most protected industry in Pakistan where the effective protection ratio (EPR) is comparatively very high. This EPR made local industry dull and uncompetitive. Regarding profitability only one example is enough that Pak Suzuki Motor Company made a profit of RS. 148.716 million in 2002 as against RS. 52.97 million in 2001. The surge in demand, coupled with a delayed response in supply on the manufacturer's parts has created a black market with customers reported by paying as much as rupees 150000/= to rupees 300000/= extra for early supply. It is surprising that having so much favorable situation automobile industry could not produce more than 40,000 cars in recent year although national demand for cars are 100,000 per annum. The automobile sector OEMS and vendors both needs deregulation. The protection to the auto industry shall not remain at the same level due to WTO factor. Pakistan auto engineering needs adjustments to coup up the international situation.

Deregulation and liberalization is a key word in today's world economic scenario. Unfortunately Pakistani entrepreneur / Industrialist is very much frightened with the word liberalization and always like to enjoy monopolistic favors and does not believe in healthy competition. They use to manipulate the situation to their own advantage in automobile sector, specially in collaboration with their Japanese partners, without keeping in view the rapid change in the world economic scenario or overall long-term benefits to the industry. Unfortunately we have to quote Indian situation for comparison in every segment of life and business. Indian government has

already adopted liberalization policy as a result the price of Maruti 800 CC car down to Rs.125000 as compared to RS. 132000 in 1995. On the other hand, in Pakistan, Suzuki Mehran a compatible model of Indian Maruti is available on Rs. 299000/=. Now Indian auto industry is operating without any subsidy. Maruti vehicles made in India had achieved more than 90% deletion whereas in Pakistan still we could not achieve deletion more than 64% although car industry is enjoying around 175% subsidy from government. Furthermore we started local assembly of same segment vehicles far before India. Progressive deletion of local manufacture of high-tech components was the ultimate aim of allowing these plants here in Pakistan. Still our automobile industry is doing welding and painting and getting parts from local vendors like tires, batteries, seats, roof linings, door hinges etc. These items can hardly be termed as high-tech components. Interestingly, local industry is not producing these



items after the implementation of deletion programme but use to produce since early sixties.

Generally industry means an establishment which converts raw materials in to finish or semi finished products through a specific process. The basic raw material for manufacturing of automobile engine is aluminum alloy but our industry is still importing engines mostly in CBU - Complete Built Up condition. Sheet metal (CRC coils) is basic raw material for punching and fabrication of body parts but most of the body components are still coming in imported CKD kit, third important raw material for car manufacturing is glass and plastics but window glasses, windscreens, headlights, taillights are still a part of imported CKD kit. Can we call our automobile sector is an industry in real sense.

The above situation is of automobile industry, now take an example of Pakistani auto vendor industry, which indicates the uncompativeness and incapability of our local auto vendor industry, is that the local vendors are meeting only 6% of total demand of auto parts for the replacement market while the rest 94% is being met by the imports. A study of R&D department of Lahore Chamber of commerce and industry reveals that there are about seven million vehicles in the country of them about six million are old and always need replacement parts. The requirements of these vehicles are not being met by local auto vendor industry.

It means that our auto vendor, automobile industry is standing on a sand foundation and living in oxygen tent of over protection. The day when we have to implement WTO rules in our policies the whole auto vendor and automobile industry will collapse like twin towers of New York city.

We should take immediate steps at government level and also all relevant industry players should plan / make a clear strategy which can meet global requirement. We should develop auto vendor and automobile industries with appropriate technologies. Adoption of production method, which must aim on cost savings including other factors, local cheap labor must use effectively. The innovative strategies are required for the survival of engineering industry. Efforts should be made to achieve localization of parts to the maximum levels in a real sense / manner, as globalization of trade and scraping of tariff based protection policies pose serious challenges. The government might have to take all stakeholders into confidence in this important task rescue package in any way is not to violate the WTO agreements yet it must provide enough support to the engineering specially automobile sector to let them survive in the new Global environment.