# Auto industry

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**Pakistan's automobile industry is stunted and dysfunctional. Customers must "book" a vehicle and wait upwards of three months to take delivery of a low-quality, low-spec vehicle. They pay the final price determined by the company at the time of delivery, usually inflated from the original booking price.**

Additionally, customers must pay a black market premium just to get possession of the vehicle they have already paid for.

The only relief for consumers in this twisted market is the option to purchase second-hand, foreign-built vehicles, which are often of better quality and come with more features than local variants.

Industries facing competition typically improve efficiency and compete or seek government protection in extreme circumstances. Globally, the automobile industry sees government intervention in rare, severe cases, like the recent US ban on Chinese electric vehicles. Otherwise, auto-makers lower prices and enhance features to attract customers.

In stark contrast, our local industry, including the Big 3 and about a dozen new entrants, produces less than 300,000 vehicles annually—less than what Toyota Japan produces in a month. This is insufficient for a country with over 200 million people and an annual influx of 500,000 potential new buyers. High taxes on new vehicle imports, justified by the industry's 'infant' status, only protect local manufacturers from foreign competition that could offer better quality and value.

The 'on money' culture is unique to Pakistan. 'On money' is a premium, undocumented charge paid by the buyer for immediate possession of a vehicle they have purchased. PIDE research estimates, in the last five years, buyers paid at least PKR 150-170 billion (assuming own being charged on over 90 percent of vehicles) as 'on money' on new car purchases in Pakistan. This means, Pakistani car consumers pay an additional PKR 30-34 billion annually in undocumented transactions under the guise of 'on money' for the purchase of cars.

The recent PAAPAM letter to the government, urging a ban on the import of used cars, fails to address key consumer grievances. It does not offer solutions to high prices, long wait times, the black market premium known as 'on money', or the subpar quality of locally manufactured vehicles. Instead, it focuses on protecting local manufacturers at the expense of consumers who are left with few options and must pay more for less.

Furthermore, banning the import of used cars will have broader negative economic impacts. It reduces consumer choice, keeps prices artificially high, and limits access to better quality vehicles. Such protectionist policies dis-incentivize local manufacturers from innovating and improving the quality of their products, as they do not face significant competition, and they know consumers are at their mercy and left with no choice but to come to them.

> International examples show that competition leads to better outcomes for both consumers and the industry. South Korea and India both protected their industries, the former shifted away much sooner than the latter. But the end result was that both have industries that are efficient and competitive, and their consumers benefit also. In markets where consumers have more options, local manufacturers are pushed to

improve efficiency, lower prices, and enhance the features of their vehicles.

This dynamic drives overall industry growth and consumer satisfaction.

Our industry and policymakers alike are obsessed with the mantra of localization. This is an outdated notion and totally out of sync with the nature of the current industry supply chain. Today, the supply chain is global, not local. Our industry must integrate with the global value chain, and not localize, and competition is an essential prerequisite for that.

Why does our industry cling to its ‘infant’ status instead of advocating for policies that would enable them to compete and become efficient? Why are they comfortable with local consumers paying exorbitant prices for low-quality vehicles with minimal features and dealing with black market premiums?

A viable business typically outgrows its infancy in about five years. Our firms, especially the Big 3, have remained ‘infants’ for decades. It’s time they grow up or close down. Consumers need affordable transportation options, and it’s high time the needs of mature, hard-working consumers take precedence over ‘infant’ firms.

With inadequate public transport options, why are our firms and policymakers not pushing for the availability of small, affordable vehicles for the masses? We urgently need a comprehensive import framework allowing the import of used vehicles in excellent condition at affordable (foreign) market rates to stimulate market competition and provide consumers with the choices they deserve.



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