

Automobile Industry: Beyond the Junction

Mohammad Shaaf Najib | 20th July, 2025



The federal ministry of industries and production earlier last month unveiled the new energy vehicle (NEV) policy for the years 2025-2030. This marks a significant moment in Pakistan's automobile industry as the NEV policy with its ambitious goals aims to encourage the industry and users to shift towards environment friendly vehicles to decarbonize the country's transport sector. This has further been backed by a NEV levy on all Internal Combustion Engine (ICE) and Hybrid Vehicles (HEVs), indicating a clear focus of the government to promote use of Electric Vehicles in the country.

The automobile industry in the last decade has taken major strides towards improvement. Following the introduction of the Automotive Development Policy (2016-2021), numerous global companies entered the Pakistan market breaking the nexus of the traditional Big Three in the automobile industry of Pakistan. This increased competition among firms allowed for the introduction of new vehicles in Pakistan, particularly in the C-SUV segment which was absent from the local automobile market prior to this. The enforcement of safety and security measures in line with the global standards in the Auto Industry Development and Export Policy (2021-2026) along with mandating export of a share of production has supplemented the growth of the industry in Pakistan.

Despite the significant improvements, numerous momentous issues still persist. High and ever increasing cost of production, low production volumes, delayed vehicle deliveries, vulnerability to external shocks such as exchange rate devaluation and import restrictions among the major issues that continue to impair the growth of the automobile industry.

Numerous vehicles are available in the Pakistani automobile sector in the B segment and above categories, with a recent influx of hybrid C-SUVs in the last couple of years as well; however, the entry level A segment still remains a highly untapped market. In addition, the continuously rising costs of vehicles has made automobile ownership much more difficult for the general public. The only 660cc engine capacity vehicle now costs over Rs 3.0 million, meaning that even the cheapest of vehicles in Pakistan are unaffordable for a majority of the population. As a result, just on the basis of pricing alone, the automobile industry's consumer base is limited to just a small percentage of the population.

While the government's resolve to actively take part in the global transformation towards the decarbonizing of road transport through increased use of electric vehicles is commendable, increasing cost of

ownership for ICEVs and HEVs in Pakistan's context will prove to be detrimental for the automobile industry.

The automobiles in Pakistan are already highly taxed on top of high production costs which has to date limited the vehicle ownership in the country. The production capacity of vehicles increased beyond half a million vehicles annually, but the production remains around 200,000 to 250,000 vehicles in a good year. Increasing the cost of ownership for these ICEVs and HEVs through the NEV levy will further reduce the vehicular affordability. Considering that the EVs cost much higher than similar ICEVs or HEVs due to newer technology and hence higher costs, the EVs remain affordable for an even smaller proportion of the population.

This leaves the automobile industry at a crucial junction where though the government is putting in the efforts to promote EV adoption, but they remain a financially unviable option particularly due to the high upfront cost. On the contrary, the ICEVs and HEVs, which remain relatively high in demand but have undergone repeated price hikes, have been further taxed, making them more expensive for the consumers and possibly impacting the consumer affordability and hence the demand for these vehicles. So what must the automobile industry do?

The automobile industry must now aggressively aim to increase production in Pakistan to achieve economies of scale, allowing them to bring down the sale prices. Although a number of automobile parts have had production localized, the localization remains restricted to low-value and low-tech parts. High-tech, high-value parts such as engines, transmission and other digital parts and features are still completely import-dependent. A major bottleneck in production of these high value parts in Pakistan is the low production volume. It requires at least production of a million vehicles annually in Pakistan to make investment

for the production of these high-tech and high value parts in the country financially feasible.

The automobile industry must therefore look for integration into the global value chain for auto parts produced in Pakistan, therefor, being able to increase their overall production to the levels where investing for high-tech and high-value products is possible. Export of automobile parts and automobiles will allow the industry to lower their per unit cost making automobiles affordable for a larger proportion of the population.

As the government of Pakistan, in line with the global efforts, is supportive of the electrification of road transport, it is pertinent that the automobile industry undertakes measures that will make EVs a financially viable and a practically favourable decision for the automobile aspirants.

In addition to reducing the upfront cost by reducing production costs and achieving economies of scale to reduce the sale price of vehicles, the automobile industry must invest in R&D as well, particularly to find innovative solutions to barriers limiting the shift towards EVs. The major barrier in the transition most certainly is the up-front cost, for which production of batteries at lower costs to reduce the vehicle price is essential. Furthermore, in order to tackle the issue of range anxiety, being able to maximize travel distance in smaller battery sizes with lower charging times will pave the way for EV adoption in the country.

The industry-academia collaboration for R&D and innovation is essential if Pakistan is to achieve the targets for EV transition as laid out in the NEV policy 2025-2030, as it is not just a matter of vehicle affordability for the public but also about the growth of the industry in the country.

The path of the automobile industry beyond the junction is difficult but clear: Innovate and increase production to make automobiles- be it ICEVs, HEVs or just EVs- affordable for a larger population of the country.

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