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Automobile Policy 2026–2031

Recommendations from PIDE Research

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Executive Summary

Government focus and persistent incentives through ADP 2016-21 and AIDEP 2021-2026 have broken the Big-3 nexus and increased total number of automobile manufacturing and assembling firms to over 15 in Pakistan. Additionally, while production capacity has more than doubled in the last one decade, but automobile sales remain stagnant. Despite half a century of localization efforts, local parts and vendor industry is unable to produce high tech, high value parts and the industry remains highly dependent on CKD kits import. The local parts and vendor industry is largely disintegrated from GVC while exports of automobiles and auto parts remain negligible.

The upcoming policy for the years 2026-2031 -in line with the goals of NTP 2025-2030- is expected to outline a tariff rationalization plan for the automobile industry. While reducing tariff cascading is a necessary step, it is essential that tariff decisions are backed by research and evidence rather than being decided arbitrarily. Furthermore, the focus must shift from industry protection to a more consumer centric approach. Tariff rationalization and commercial import both are essential for increasing competition to the local industry, enhance automobile market size, and improve consumer vehicle affordability.

Key Recommendations

1. Issue a Moratorium on any new manufacturing or assembly licenses for the next five years
2. Gradually eliminate the booking system, and shift sales of new vehicles to a retail model.
3. Eliminate the SRO led Tariff Based System and introduce a single tariff rate for auto parts, regardless of localization status of the part.
4. Export focus should shift towards auto parts industry instead of export of passenger vehicles through OEMs.
5. Final Tariff target for auto sector to be achieved under NTP must be reevaluated, and decided on basis of detailed evidence based industry diagnostics.
6. Develop a new commercial import framework based on quality metrics and not just time based import permissions. Tariff rates for Gift and Transfer of Residence schemes must be higher than commercial import tariffs.
7. A 2 step import tariff structure must be developed, aiming to increase ownership of NEVs, particularly in A and B segment vehicles.

The Auto Industry Development and Export Policy (AIDEP) 2021-2026 has expired with the completion of Fiscal Year 2025-2026. This was the third sector-specific policy for governing the automobile sector after the Auto Industry Development Program (AIDP) for 2007-2012 and then the Automotive Development Policy (ADP) 2016-2021. Based on the focus and continuous efforts particularly in the last decade, for the development and revitalization of automobile industry, a new policy for the next five-year period from 2026 to 2030 is expected to be announced soon.

Pakistan Institute of Development Economics (PIDE) during the last five years has comprehensively undertaken research on the automobile sector of Pakistan, and been a leading voice for much needed reforms for the development of automobile industry and market in the country. As such, this policy viewpoint identifies the areas that the upcoming policy should address and presents recommendations for development of the industry in Pakistan based on PIDE's research

Policy Gate-keeping

The AIDEP has expired just a few days before, which means the new policy must be announced soon to ensure that the sector is governed through well-defined and targeted policy interventions without any disruption. However, there is no publicly available draft or information regarding what the new policy would contain for the industry.

This continues to fuel uncertainty among the industry and consumers both with regards to the fate of the industry's future, while also giving chance to various opportunists within the automobile market to initiate a rumor mill and benefit and exploit on the basis of hearsay.

> Whenever a new automobile industry policy is being developed, academia is wondering where is the policy, and why is it being kept in silos giving rise to uncertainty, market distortions, and opportunity to exploit?

While the contents of the policy hold the utmost importance, a transparent policy making process is also essential to eliminate possibility of chaos and uncertainties, and instead create an environment of trust between the government and its policy making process and the industry, consumers and even academia.

Key Recommendations

1. The current AIDEP 2021-2026 shall be extended for six more months till 31 December 2026.
2. Draft of the new policy can be publicly shared and presented before presenting to relevant approval forums
3. A 45-day feedback period must be given for public feedback on the policy, while conducting necessary stakeholder consultations in the given period as well.
4. Following feedback being incorporated, the final draft should/may be presented to the parliament for debate and approval.

Volume-less OEMs

Following ADP 2016-2021, numerous firms were given greenfield and brownfield status and issued automobile manufacturing and assembling licenses. This has resulted in more than 10 new Original Equipment Manufacturers (OEMs) or car brands beginning manufacturing and assembly of vehicles in Pakistan during the last decade.

While on one hand, this has helped dilute the market power and hold on the automobile market of the infamous 'Big Three', but it has not translated into expansion and growth of the automobile market in the country. Despite entry of new brands, the annual total production figures have still not reached the same levels that Pakistan's industry managed with three firms prior to COVID-19, except for outlier year of 2021-22. The industry continues to target and wish for breaking the 200,000 sales barrier every year but is unable to do so.

Consequently, the market share of each brand has been significantly reduced; making automobile business a much difficult affair in the country. Many new local firms that partnered with global OEMs to begin assembly and manufacturing in Pakistan have expanded their partnerships with multiple global brands in order to survive in the industry, while some continue to sale vehicles without establishing manufacturing or assembly facilities in the country. (Table 1).

Table 1: Some Pakistani Business Groups with Multiple OEM Partnerships

Pakistan based group	Global OEM Partners
Lucky Group	Kia (Korea), Peugeot (France), GAC (China)
Nishat Group	Hyundari (Korea), Omoda and Jaecoo of Chery (China)
Sazgar Group	BAIC (China), Haval, ORA, and Tank of GWM (China)
Master Group	Changan (China), Deepal (China)
United Group	Jetour of Chery (China), Louyang Dahe (China)

Moreover, production projections in the policies have never come true either. The AIDP 2007-2012 projected that production shall be scaled up to 500,000 vehicles by 2012 from 161,000 in 2006, while the ADP 2016-2021 set a target of 350,000 units.

The 2021-2026 AIDEP again increased the production target to 500,000. In the last 20 years, the production capacity through establishment of new assembly plants has almost doubled from 275,000 in 2006 to over 500,000 today, but production levels remain low and well below the total production capacity from two decades ago, let alone inching close to the targets being set in the five year policies.

How are the production targets being set, and sales being projected? Is any probable impact of meeting these production and sales projection on exchange rate, road infrastructure and overall economy studied before finalizing the targets?

Is increasing vehicle brands without increasing automobile market size a viable approach in the long term?

What PIDE's Research Says

Despite repeated efforts, Pakistan's automobile industry has not been able to scale up production, improve local development and production, and reduce cost of production. Automobile manufacturing and assembling still remains highly import dependent, while the local vendor industry remains disconnected from the global value chain with negligible exports.

Comparatively, Pakistan's policy environment lags much behind other countries that have managed to develop their automobile industries to compete on a global level through production volumes and technological capabilities.

-The Skewed Policy Environment, Chapter 5, Driving Backwards: What is Wrong with Pakistan's Automobile Industry (PIDE)

Recommendations:

1. Issue a Moratorium on any new manufacturing or assembly licenses for the next five years.
2. Phase out booking system over a period of three years, and shift sales of new vehicles to a retail model.

Localization Obsession vs the Export Dream

Pakistan's automobile policy has always revolved around the idea of localizing production. Initiated through the deletion program in 1980s, and then replaced by a Tariff Based System (TBS), the original purpose was to develop the capability to manufacture locally. Despite nearly half a century of localization efforts, vehicle production still remains majorly import dependent, as local vendor industry's capabilities are restricted to low-value parts while all high-value and high-tech parts are imported as Completely Knocked Down (CKD) kits.

In recent times, the focus has shifted towards turning the automobile industry into an export industry. The AIDEP 2021-2026 mandated that five percent of the total production shall be exported, but it did not bear any fruit either.

Can a CKD import dependent automobile industry become competitive for exports? At under 200,000 p.a. production volumes, and individual production capacities of a few thousands, can firms achieve the economies of scales required to tap in to the export market? The new policy should tackle this fundamental issue of the industry.

Automobile OEMs operating in Pakistan have three primary origins: Japan, Korea, and China. The Japanese and Korean automobile firms follow a similar policy. Instead of scaling up production at a single or few places for global exports; firms from both countries partner with local organizations in target countries. They set up assembly plants while supporting the establishment of a local vendor industry targeting the local automobile market or only regional markets at best. This philosophy is best described as Glocalization[1]: conducting business by targeting global markets but modifying products as per the local needs, and often through full or partially localized business operations.

Further, when the AIDEP 2021-2026 tried to make exports mandatory, Japanese firms pointed to the JV agreements with local Pakistani firms which limit production in Pakistan for local sales only and not exporting. Chinese automobile firms have gained market share in various countries and regions within Right Hand and Left Hand driven markets based on highly competitive pricing and features list, including Europe and Americas. Recently, Chinese firms have expanded production facilities to Latin America, East Asia and now South Asia as well, with local markets and export targeting both. In Pakistan, however, the individual production capacities of these firms for now are just a few thousand vehicles annually. Without a focus on achieving economies of scale, export competitiveness will remain a distant dream. Moreover, since numerous regulations in Pakistan (such as safety standards) vary in comparison to other countries, this affects the export eligibility of vehicles produced in the country.

With such constraints, it is a point to ponder if exporting CBUs of vehicles is even achievable for Pakistan?

PIDE's Research on the Localization Obsession and Export Competitiveness

Protectionist policies under localization obsession in Pakistan have created a non-competitive automobile industry which is primarily disintegrated from the global value chain, particularly the vendor industry which are acting only as captive producers. Over-reliance on localization as led to significant economic drawbacks resulting in low production volumes, high cost of production, delayed vehicle supplies and standards and features below global practices.

-Sputtering Towards Self-Sufficiency, Chapter 2, Driving Backwards: What is Wrong with Pakistan's Automobile Industry (PIDE)

Despite decades of localization focused policies, Pakistan's automobile industry remaisn highly import dependent. Tariff Management through three SROs (655(I)/2006, 656(I)/2006, and 693(I)/2006) have eliminated competition for the local pats and vendor industry and hence taken away their incentive to innovate and improve. Neither has the parts industry been effectively localized, nor has it been able to integrate with the global value chain to transform into an exporting industry.

-Everything Seems to have Changed, But Nothing Has Changed, Chapter 3, Driving Backwards: What is Wrong with Pakistan's Automobile Industry (PIDE)

Recommendations:

1. Phase out the SRO led Tariff Based System over the next two years.
2. Replace the TBS with a uniform tariff rate for auto parts, regardless of localization status of the part.
3. Shift focus of export from CBU vehicles to exporting auto parts.
4. Facilitate increased investments and JVs, particularly with Chinese firms, in auto parts industry with equal focus on capital input as well as transfer of technology/capability development.

Tariff Rationalization under National Tariff Policy Vision

The National Tariff Policy 2025-2030 has been designed to rationalize import tariffs in Pakistan to bring them down to a reasonable level to improve the competitiveness of manufacturing industries for promoting export and reducing distortions in the domestic market. It is therefore expected that the Automobile Policy 2026-2031 will deliver a tariff rationalization plan for the industry to align with the NTP vision. It is important to understand that the NTP outlines just the economy wide Trade Weighted Average Target to be achieved by 2030, and does not specify sector level interventions.

Tariff Adjustments in Budget 2026-2027

While the five-year tariff rationalization implementation plan will be part of the upcoming auto policy, the federal budget for the year 2026-27 did make some changes regarding import tariffs of vehicles, mostly in line with the direction as suggested by the National Tariff Policy 2025-2030.

The custom duty for vehicles of all engine capacity up to 1800cc has been reduced by 20 percentage points, and by 50 percentage points for vehicles with engine capacity above 1800cc till 3000cc. The regulatory duty which was applicable for vehicles above 1300cc engine capacity has been reduced by 30 percentage points but just for vehicles with engine capacity between 1800 and 3000 cc. The Additional Custom Duty which was applicable at 6% for all vehicles with engine capacity above 1300cc has been reduced to 4%.

While there has been no change in the FED on any vehicle category, a special FED at 86% has been imposed for vehicles with engine capacity between 2001 and 3000cc, and 92% for vehicles with engine capacities above 3000cc.

Similarly, Electric Vehicles valued up to USD 75,000 have been kept exempted from FED but a 30% FED will now be applicable for EVs costing between USD 75,000 and 110,000 and a 40% FED of EVs valued over USD 110,000 thousand.

While the government has reduced the duties applicable on import of vehicles which is expected to have a positive impact on consumer vehicle affordability, availability of vehicles in the market, and competition to local industry as well, the imposition of Special FED on luxury vehicles of all power trains is also a welcome step.

PIDE's research has continuously been emphasizing on the need for tariff rationalization in the automobile industry, but also advocating for tariff setting at a stage where the consumer benefits, local industry has the opportunity to fairly compete but the focus must remain towards entry and mid segment vehicles. The direction of tariff changes as announced in the Budget 2026-27 is well articulated with PIDE's research based proposals for the automobile industry.

1.The term "glocalization" originated in Japan during the 1980s, stemming from the Japanese word dochakuka (which translates to "global localization")

Tariff rationalization for the automobile sector is a promising step, however, along with the possible benefits it will bring some challenges at least initially as well. It is, therefore, of paramount importance that the government fully understands the possible challenges as a result of tariff rationalization. The challenges include potential loss of some employment in initial phases and additional pressure on the external account, both of which are likely to draw severe criticism.

The government must therefore be wary of these challenges and be fully committed to the course of action it has initiated. The reversal of these reforms will prove more detrimental for the local industry and market than not having initiated tariff rationalization at all. Tariff Rationalization is expected to make automobiles more affordable for a wider population, initially driven by relatively cheaper imports. The actual impact on local industry will depend on how the industry reacts to increased competition, however, the industry continues to alarm bells regarding decreased sales, loss of business and hence employment. This leaves the government with a vital consideration: Challenge the industry through reduced tariffs and bear the loss of business while creating opportunity for vehicles to be affordable for a larger public, or to continue protecting the automobile industry even after half a century to prevent loss of business and employment, but vehicle ownership remains significantly low.

Protect Local Industry or increase automobile ownership? An important policy consideration for the government.

PIDE's Research on Impact of Tariff Reduction on Automobile Industry

Tariff Rationalization is an essential and much needed step, particularly for the automobile industry. While the tariff rationalization is expected to act as a push for the industry to become competitive, it also has risks attached such as possible closure of at least some firms and an increase in import bill.

Collectively, the tariff rationalization is expected to increase competition in the automobile market, improve vehicle availability and affordability through tariff induced cost reduction, and while it may cause some employment to be loss; more jobs will also be created particularly in vehicle import and servicing businesses.

On the external account, if all vehicles are imported as CBUs and the industry's magic 200,000 sales per annum figure is achieved, at least a USD 02 Billion increase in import bill must be expected. Any expansion in automobile market will further add onto the import bill beyond the USD 02 Billion increase, for which additional financing must be ensured.

-Impact of Tariff Reduction on Automobile Industry, PIDE Policy View Point No. 49: 2025

Recommendations:

1. Final tariff target for auto sector to be achieved under NTP must be reviewed and reevaluated in consultation with stakeholders.
2. The government and industry must collaborate in conducting Industry Diagnostics by involving researchers and academia to ascertain the adequate level of tariffs that create a competitive environment for local industry and external players while also lowering the tariff cascading in the industry.
2. A 2 step CBU Import Tariff structure must be developed, representing government priorities for public automobile ownership in the future. Priority must be on increasing ownership of New Energy Vehicles, with a keen focus on A[2] and B[3] segment vehicles. (Table 2)

2.A segment vehicles are the smallest passenger vehicle category, and consist of primarily compact hatchbacks typically up to 3.7 meters in length.

3.B segment vehicles are subcompact vehicles consisting predominantly small sedans and large (compared to A segment) sized hatchbacks. These vehicles have a reasonable boot space and generally are between 3.7 and 4.0 meters in length.

- i. Powertrain[4] based tariff: In order to promote adoption of new energy automobiles, for comparable vehicles the ICEVs should be charged the highest import tariff, followed by HEVs, PHEVs and REEVs, and lowest on EVs
- ii. Intra-Category tariff differentiation: Within each of these categories i.e. ICEVs, HEVs, PHEVs, REEVs, and EVS, the tariff rate must be lowest for A segment vehicles followed by B and then C[5] segment. Vehicles in segments D[6] and above must have a higher tariff for all powertrains due to excess resource utilization (fuel and/or electricity) for powering the vehicle as well as being luxury categories.

Table 2: Proposed 2-step CBU Import Tariff Matrix

Segment	ICEV	HEV	PHEV / REEV	EV
A — Subcompact *Up to 3.7 m; compact hatchbacks*	Medium	Low	Lowest	Lowest
B — Small *3.7–4.0 m; small sedans, hatchbacks*	Medium-high	Medium	Low	Lowest
C — Medium *4.2–4.6 m; sedans, compact SUVs*	Medium-high	Medium	Low	Low
D+ — Large / Luxury *Over 4.6 m; excess resource use*	Highest	Highest	Medium-high	Medium-high

Commercial Import of Used Vehicles

The Ministry of Commerce through an S.R.O dated 15 January, 2026 made significant amendments in the Import Policy Order, 2022 (Ministry of Commerce, 2026). The S.R.O eliminated the Personal Baggage scheme, while tightened the rules regarding the Gift and Transfer of Residence schemes. In light of this change in the import policy order, it was also announced that a new commercial import policy for used vehicles will soon be announced to streamline and standardize import of used vehicles policy.

Pakistan's local automobile industry must consider why local consumers, particularly in A and B segment vehicles, tend to prefer used imported vehicles with no local dealership support over new locally assembled/manufactured vehicles with countrywide 3S dealership networks?

Though the modalities for commercial import of used vehicles have not yet been announced, the Ministry of Commerce on 23 June 2026 issued a one-time exception from Pre-Shipment Inspection under Gift and Transfer of Residence schemes for vehicles shipped under Master Bills of Lading from 16-01-2026 to 09-03-2026. The purpose was to clear the vehicles rated above grade-3 stuck at port due to immediate change in rules as a result of the 15 January 2026 SRO.

4.Powertrain refers to a vehicle's integrated mechanism and system that is responsible for generating the power to enable vehicle movement. E.g. the powertrain of ICEVs is an engine, while for EVs a motor is its powertrain.

5.C segment vehicles are medium sized vehicles with larger power outputs and include mostly sedans and C-SUVS and in some cases a few hatchbacks as well, and are typically 4.2 to 4.6 meters long and larger boot space than B segment.

6.D segment vehicles are referred to as mid-size or large family cars with increased cabin room and larger boot space measuring over 4.6 meters in length. D segment vehicles can also be considered as entry level luxury vehicles.

PIDE's Research on Commercial Import of Used Vehicles

On Money, the undocumented black market premium charged over and above the price of new vehicles is a direct consequence of supply and demand gap as well as delayed supply through the booking system. Import restrictions further limit supply and increase opportunity to earn the On Money premiums. The Import ban on CBU vehicles in May 2022 increased the On Money in automobile market by five to seven percentage points (from 7-8% to 12-15% of the vehicle price).

It is therefore essential that local industry is given necessary competition while consumers have choice through available and ready to buy vehicles, which will also decrease the On Money in the economy. However, this does not mean that below par vehicles shall be allowed to import.

The current Gift and Transfer of Residence schemes cannot be categorized as imports but legal loopholes allow for exploiting these schemes for business purposes. It is necessary that a new import framework is developed that establishes the rules of the game for an automobile import business while setting minimum quality standards.

-Imports, Dealerships and the Unending Menace of On Money, Chapter 4, Driving Backwards: What is Wrong with Pakistan's Automobile Industry (PIDE)

Recommendations:

- A new commercial import framework must be introduced. Some of the proposed salient features of such an import framework:
  - i. The commercial import allowed through a registered company only.
    - a. The company registration process must be seamless, and preferably through the platform of Pakistan Single Window.
    - b. Registering as a company for commercial import of automobiles shall act as the defacto license for importing vehicles. No additional RLCOs must be required for importing vehicles for the registered company.
    - c. Registering the company for commercial import of automobiles shall also automatically register the company as the Motor Vehicle Dealer. No additional process must be needed for separate registration as motor vehicle dealer.
  - ii. Vehicles permitted for Commercial Import must be tied to quality and not vehicle age.
  - iii. Obtaining a Certificate of Conformity through internationally accredited Pre-Shipment Inspection (PSI) company prior to leaving country of origin.
  - iv. Post-Shipment Inspection (Post SI) must be conducted upon arrival at port. Multiple Post SI companies must be invited to offer services at Pakistan's port for inspecting vehicles. However, an automated system must be used that randomly selects the Post SI company upon arrival of vehicles at port for inspection to minimize possibility of cheating.
- Tariff rates for Gift and Transfer of Residence schemes must be higher than commercial import tariffs to ensure that these schemes are used only as a necessity and not to run a parallel business stream.

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