



A CASE OF STALLED DEVELOPMENT

THE STATE OF PAKISTAN'S AUTOMOTIVE COMPONENTS INDUSTRY

The slide features a dark blue gradient background. In the corners, there are decorative white line art elements resembling circuit boards or neural networks, with lines and small circles connecting them.

OUTLINE OF TODAY'S TALK

- Context
- The current state of the industry
- Main findings
- Policy implications

THE CONTEXT

- Manufacturing sector, automotive industry at the core of economic development efforts time and again
- Automotive industry ideally suited to channelling and accelerating development agenda
- Pakistan's automotive industry has grown considerably but not achieved technological prowess and competitiveness
- Being achieved through learning and emulation and not innovation per se

CURRENT STATE

- Automotive industry is not most important contributor to value added of manufacturing
- Annual turnover of **PKR 30 billion**, investment of **USD 1.09 billion**, contribution to GDP of **2.8 percent**, providing direct employment to over **215,000** workers
- Over 2,200 vendors with roughly: 450 in Tier I, 425 in Tier II and 1,325 after-market suppliers
- Industry regarded as labour intensive assembly shops rather than modern production lines

MAJOR MARKET SHARES

OEM Affiliation	Passenger Cars	Motorcycles	Trucks/Buses	Tractors	LCVs
Japan	90%	90%	100%	0%	50%
	Suzuki	Suzuki	Nissan		Suzuki
	Toyota	Yamaha	Hino		Toyota
	Honda	Honda	Mazda		
	Nissan				
	Daihatsu				
Others	10%	10%	0%	100%	50%
	Hyundai	Various Chinese Firms		Massey Ferguson	Hyundai
	Fiat			Fiat	
	Kia				

Source: Pakistan Automobile Manufacturers Association (PAMA)

LOCAL CONTENT ACHIEVEMENT

(%)

Sector	Local Components Used
Cars	Up to 70
Tractors	96
Motorcycles	95
Three Wheelers	80

Source: Pakistan Automobile Manufacturers Association (PAMA)

POLICY IMPLEMENTATION

	('000 Units)					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
AIDP Production Target	200	250	310	380	440	560
Actual Production	203	194	112	143	154	179
Shortfall (Excess)	(3)	56	198	237	286	381

Source: (JICA, 2011) and author's calculations

INDUSTRY SURVEY

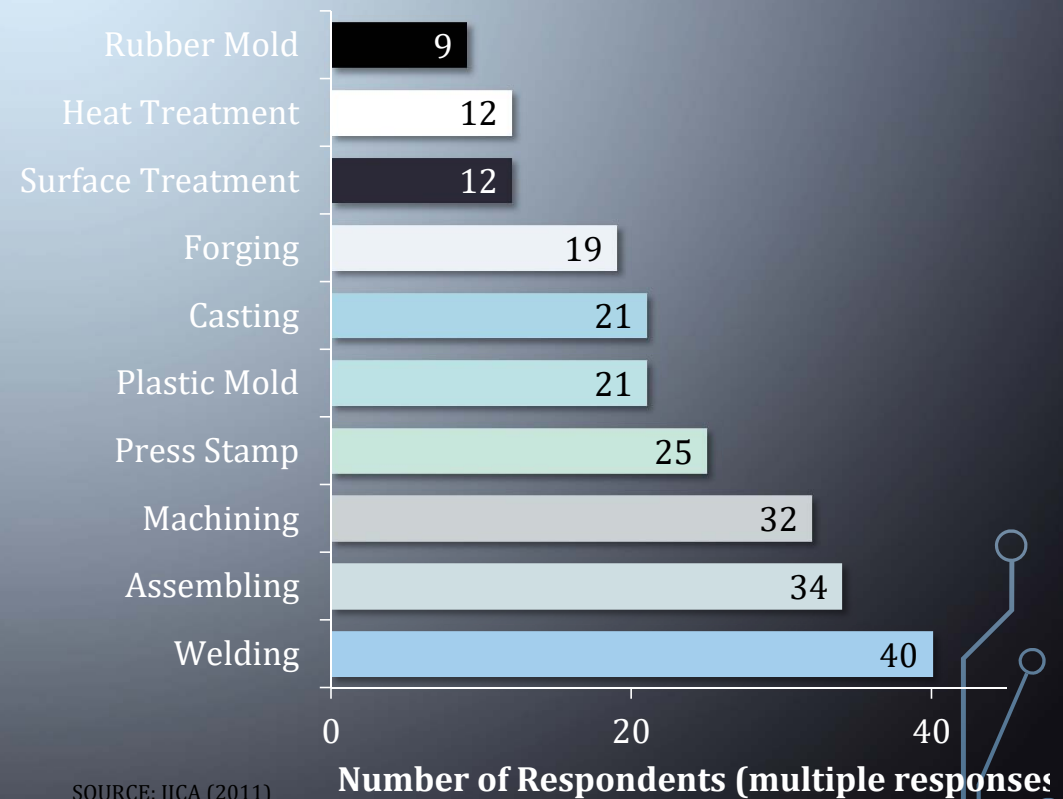
- Survey in 2011 by JICA designed to assess:
 - Level of technology
 - Quality and safety standards
 - Level of management
- Total population: 253 firms (organized, members of PAAPAM)
- Concentrated in lower value added segment of industry
- Weighted sample: 140 component manufacturing firms

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KEY FINDINGS

PRODUCTION PROCESSES AND TECHNOLOGY

- Majority use simple and relatively labour intensive technology
- Processes requiring specialized equipment used by select few
- Limited specialization by majority of manufacturers



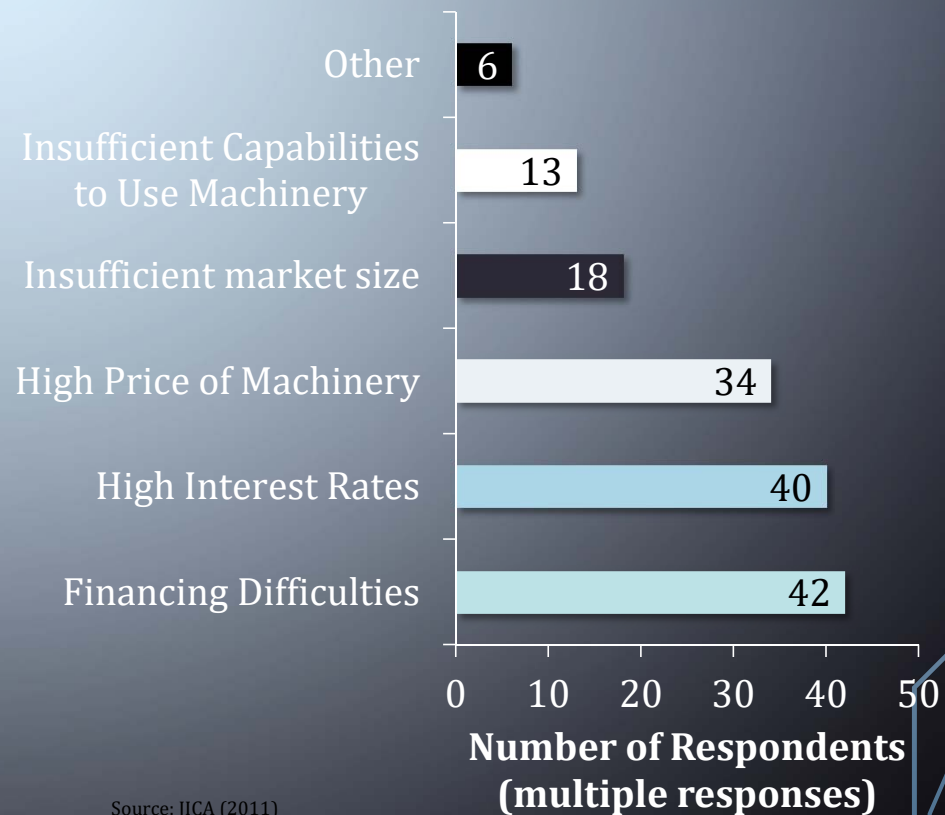
SOURCE: JICA (2011)

UPGRADING OF PRODUCTION PROCESSES

- Production equipment manufactured in 1980s
- Majority of component manufacturers feel technology is sufficiently modern and not requiring an upgrade
- Market failure requiring state intervention

FACTORS CONSTRAINING PURCHASE OF NEW TECHNOLOGY

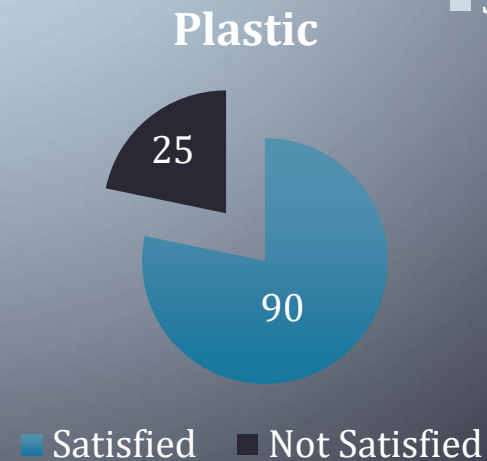
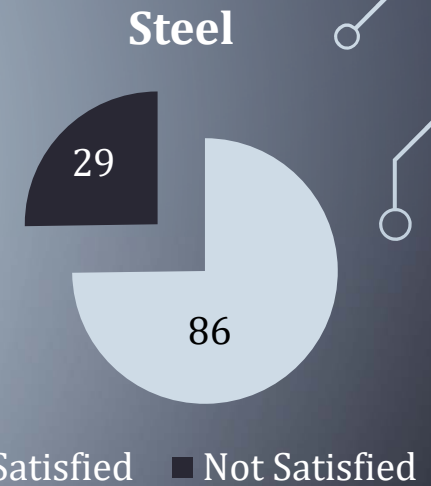
- Primary reason is financing difficulties
- High cost of obtaining the machinery
- Capabilities to make effective use of machinery and technology



Source: JICA (2011)

QUALITY CONTROL

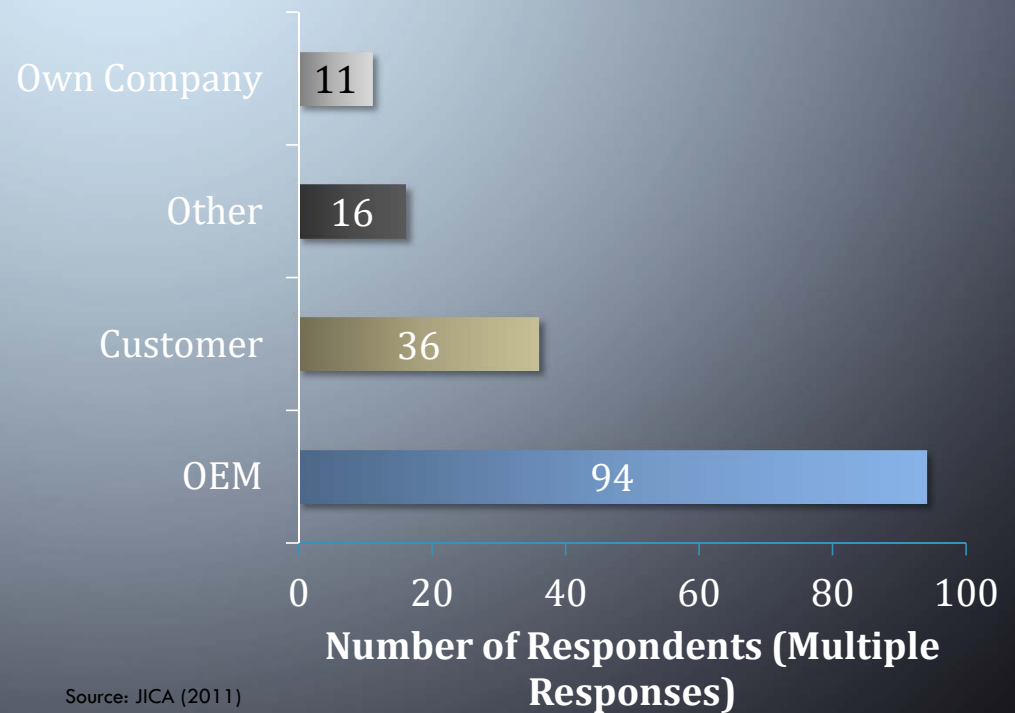
- Quality of output is an indicator of technological capabilities and also competitiveness
- Level of quality in domestic market is low
- Quality of plastic products marginally better than steel



Number of respondents
excluding no responses (25)

QUALITY CONTROL STANDARDS

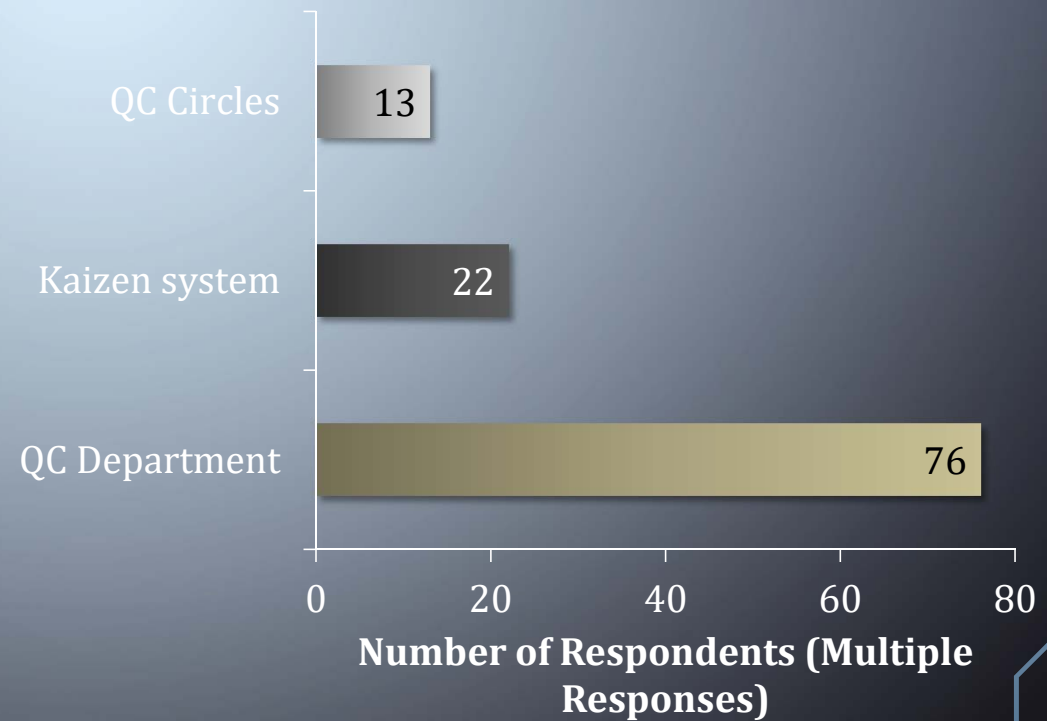
- Majority follow standards set by OEMs and customer
- Select few have established own standards



Source: JICA (2011)

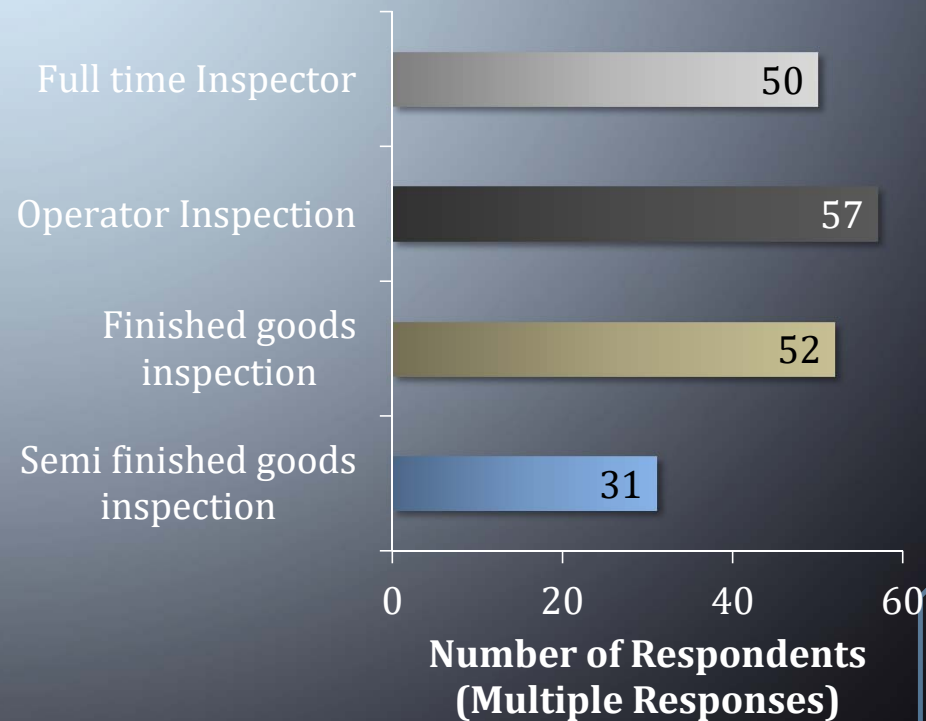
QUALITY CONTROL PRACTICES

- Manufacturers aware of QC and attendant benefits
- Limited number make use of QC measures
- QC Department most common



EARLY DISCOVERY OF DEFECTIVE PRODUCTS

- Rely on Full-time or operator inspection
- Finished goods and semi finished goods inspected by fewer manufacturers



QUALITY CONTROL MEASURES IMPLICATIONS

- OEMs first choice — source locally
- But:
 - benefit of lower procurement cost offset by high inspection cost
 - Production schedules and operations must be adjusted to accommodate additional inspection

INDUSTRY COLLABORATION AND INTERACTION

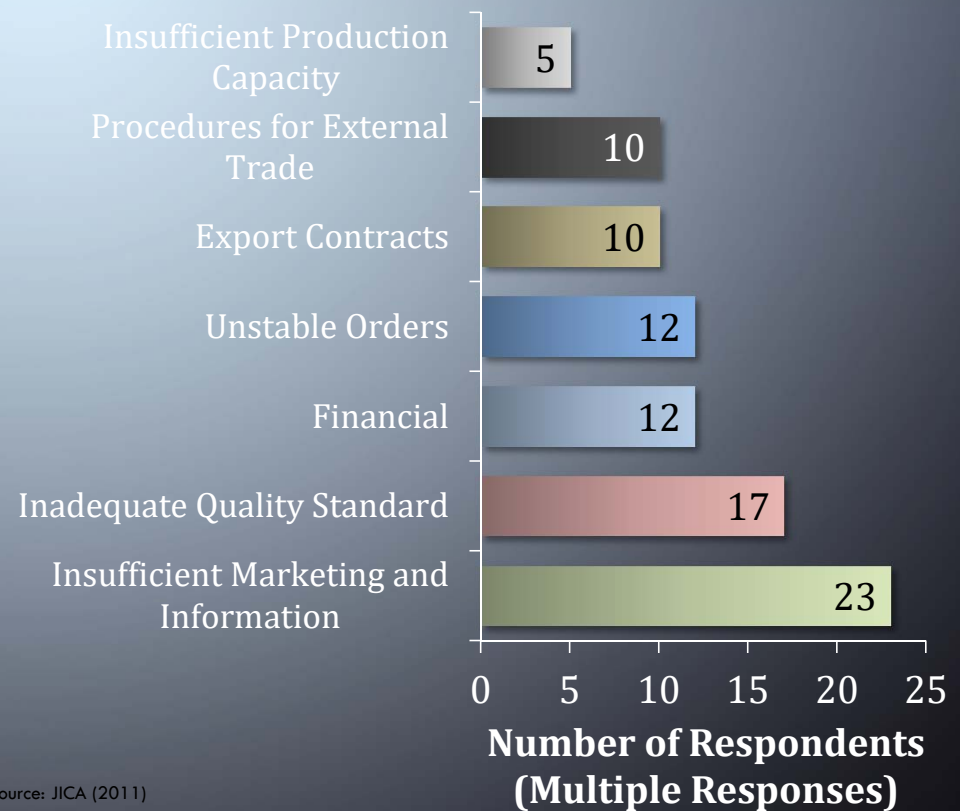
- Local industry relations are different from advanced countries such as Japan where keiretsu are prevalent
- Component manufacturers tend not to have captive relationships with OEMs
- Only limited number have advisory service in production from OEMs
- Technical support (drawings, plans etc.) received by large proportion of manufacturers

INTERNAL TECHNOLOGICAL CAPABILITIES

- More than 100 (out of a total of 117) respondents express satisfaction with internal technological capabilities
- For 10 firms lack of productive capacity limited their operations
- Only 7 firms left their products lacked competitiveness

FACTORS CONSTRAINING EXPORT OF PRODUCTS

- Lack of adequate marketing of products abroad
- Lack of information about potential markets and customers abroad
- Inadequate quality standards
- Is EPB, now TDAP, functioning as desired to promote and encourage export growth?



Source: JICA (2011)

CONCLUSION

- Home grown domestic industry
 - yet to take off
 - Plagued with low levels of productivity and quality
- Attributed to
 - Lack of new production technology
 - Low quality of raw materials and inputs
 - Inadequate training

CONCLUSION (CONT.)

- Foreign affiliated firms dominate various segments of the market
- Component manufacturers:
 - Primarily SMEs established in clusters
- Limiting factors in development of sector:
 - Limited access to adequate financing
 - Risk-averse nature of manufacturers
 - Quality control

CONCLUSION (CONT.)

- Policy initiatives while initially promising, have failed to deliver in the longer term
- Impact diluted due to various reasons
 - Unstable policy environment
 - Lack of awareness of initiatives such as AIDP
 - Lack of trust in actions of the state



POLICY IMPLICATIONS

- Policy framework needs to be streamlined
 - Outreach of policy initiatives needs to be improved
 - State should take a more pro-active role in development of the sector and enforce performance-based criteria
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