

Pakistan



The Motorcycle Industry in Pakistan: Investment Opportunities and Prospects (Part I)

About The Pakistan China Motorcycle Industry Council (PCMIC)

This organization is a Pakistan & China Motorcycle trader & Industrial group network for Pakistanis, Chinese and their friends. In addition to being a Pakistan & China motorcycle trade & industry watcher, an investor, a business consultant and an avid follower of the Chinese Motorcycle Trade & Industry markets.

The Pakistan China Motorcycle Industry Council (PCMIC) has been created as an instrument to aid the harmony between the Pakistani importer cum motorcycle assemblers and Chinese exporter cum motorcycle manufactures. The PCMIC's main goal is to smooth the way for further expansion by all parties and to aid in communication and develop better relationships. Global Chinese motorcycle makers are welcome to seize opportunities in Pakistan and further increase their market shares as currently 55% are Chinese brand-ed motorcycles and 45% Japanese.



Muhammad Yousuf Shaikh

The Founder & Chairman of Pakistan China Motorcycle Industry Council, offers his analysis of the motorcycle trade & Industry trends from Pakistan & China. As the Chairman of PCMIC working with motorcycle trade & industry for over two decades, Yousuf believes that new projects with foreign investment particularly Chinese investment could help Pakistan to design and produce its own automobiles mainly motorcycles, engines as Pakistan have strong brotherly & bilateral trade relation with China.

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The report title 'Motorcycle Industry in Pakistan; Investment opportunities and Prospects' presents a valuable resource on Pakistan's leading and potential motorcycle industrial sectors highlighting useful information and data in a concise way so as to facilitate entrepreneurs with informed decision making with regard to investment in a particular sector.

The report highlights sector situation analysis including existing capacity and production trend, trade data, technology level, investment opportunities, export potential etc.

Efforts have been made to enlist leading players in the sector. Possibilities for foreign investors, wherever possible, of entering into technical collaboration or joint venture with Pakistani companies have been highlighted. In addition, outsourcing possibilities, especially in the motorcycle parts and components sub-sectors, have also been made part of the report.

DISCLAIMER

The team of PCMIC's experts, Global Auto Sources (GAS Magazine) and CHINAMOTOR

Magazine endeavor, using their best efforts in the time available, to provide high quality services hereunder and have relied on information provided to them by a wide range of other sources. However, they do not make any representations or warranties regarding the completeness or accuracy of the information included this report.

The information provided in this report does not necessarily represent the views or positions of the Ministry of Industries, Government of Pakistan. April 12, 2013





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The senior members of the Pakistan China Motorcycle Industry council (PCMIC) are Mr. Muhammad Yousuf Shaikh (founder & central Chairman of PCMIC) and Mr. David McMullan (Co-Chairman of China region of PCMIC). Yousuf and David are vastly experienced in this industry and they will both dedicate their time and efforts to help improve Pakistan-China relationships and are available for advice at any time.

The Story of PCMIC

"The Pakistan-China Motorcycle Industry Council was jointly organised by Mr. David McMullan and Muhammad Yousuf Shaikh in China on 18th Oct 2010 and endeavours to open new avenues for the promotion of bilateral trade and economic relations between the two countries", stated Muhammad Yousuf Shaikh, Founder & Central Chairman of Pakistan China Motorcycle Industry Council and Chairman China Region of PCMIC.

During a meeting with Mr. David McMullan, Muhammad Yousuf Shaikh formed the initiative for organising the Pakistan China Motorcycle Industry Council, which he considered a natural follow-up to the decisions taken to enhance Pak-China bilateral trade during the visit of the Prime Minister to China. Muhammad Yousuf Shaikh also discussed the forthcoming Motorcycle Trade and Industry Exhibition CIMA-MOTOR being organised by CCPIT on every year in Chongqing and other matters of mutual interest for the promotion of Pak-China economic relations.

PCMIC Intentions

At the meeting it was also decided that Muhammad Yousuf Shaikh and David would make a combined movement in exploring the emerg-

ing Pakistan Motorcycle market particularly by increasing Chinese interest and Pakistan's participation at the Chinese exhibitions, which is the modern tool to penetrate the potential markets. Muhammad Yousuf Shaikh having a long association with China stated that his dialogue with David in Chongqing has resulted in vast opportunities for Pakistani motorcycle Importers cum assemblers & Chinese motorcycle exporters cum manufacturers and parts manufacturers of motorcycle sectors for participation in CIMA-MOTOR each year.

Consequently the share of PCMIC representation in fairs and forums has increased manifold. Complimenting the offer made by exhibition organisers to the Pakistan China Motorcycle Industry Council, Yousuf said that "the economic relationship particularly with Chongqing of China has increased significantly." Muhammad Yousuf Shaikh who had also the privilege of being the Founder and President of the Association of Motorcycle Importers of Pakistan acknowledged that "Pakistan and South Asian Countries are emerging markets for motorcycles with immeasurable potential and this is the right time for Pakistan & China Motorcycle Manufacturers to make the maximum use of these markets to gain footholds and maximum shares by the aggressive marketing of its products."

Muhammad Yousuf Shaikh was assured that David would continue extending his support to PCMIC for measures which will promote business activities in Pakistan & China. The Motorcycle Industry Council also exists to preserve, protect and promote motorcycling through government, communications and media relations, statistics and research, aftermarket programs, the development of data communi-

cations standards, and activities surrounding technical and regulatory issues. As a non-profit, national industry association, the PC MIC seeks to support motorcyclists by representing manufacturers and distributors of motorcycles, scooters, motorcycles/ATV/ROV parts and accessories, and members of allied trades such as insurance, finance and investment firms, media companies and consultants

About the Global Auto Sources

Global Auto Sources (GAS Magazine) is the only English language magazine that features the entirety of the Chinese auto/moto industry including cars, tractors and all agricultural vehicles, diggers and all industrial vehicles, motorcycles, electric vehicles, buses, trucks etc.

Produced by Muhammad Yousuf Shaikh in Pakistan GAS magazine is a one stop shop for the whole Chinese vehicle industry.

GAS magazine is a partner of CIMA-Motor, SUBCON and Chongqing Auto exhibitions. GAS



magazine have joint media cooperation with CHINAMOTOR magazine as their media

partner in Pakistan, Afghanistan, Bangladesh and central Asian countries.

About the Author

I am the pioneer of the Chinese Motorcycle Trade & Industry businesses in Pakistan, and my years of experience in the motorcycle trade & industry plus my contribution towards the flourishing development and launching of several new Chinese motorcycles in Pakistan,



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my experience includes senior roles in product development according to market requirement, marketing and business management. I have more than 20 years of experience in the Motorcycle trade & industry.

I am committed to supporting foreign investors, especially Chinese & Pakistani entrepreneurs to develop emerging technologies that become the driving industries of the future.

I am looking for an opportunity to set-up a facility for a Pakistan motorcycle industry with extensive experience of setting-up facilities for Pakistani companies on a global sourcing for new technology motorcycles and engine manufacturing in Pakistan.

These efforts are supposed to facilitate the creation of numerous companies and thousands of jobs.

Being a Founder & Chairman of the PCMIC, I am working for investors, particularly Chinese investors for setting-up an inventive research & development, and production facility with us in Pakistan to Design & Manufacture new technology motorcycle and engines in the public/private partnership.

I am known to all top Chinese & Pakistani motorcycle manufacturers with all aspects of International sales & purchase, establishing new channels, selection of right design vehicles for specific markets, dealing with import/export

regulations, developing new models, finding real manufacturers as well as making presentations at trade shows.

It is with great optimism and interest that I take it upon myself to promote the Pakistan Motorcycle industry sector in China and to invite global Chinese manufacturers to establish joint ventures or independent companies in Pakistan. I believe that there are several areas in which I could help Pakistan and Chinese Motorcycle Industry to strengthen the motorcycle Industry of both countries and also help to export motorcycles from Pakistan in the International market especially Pakistan's neighboring countries.

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This report has been prepared by Muhammad Yousuf Shaikh, Founder & Chairman, Pakistan China Motorcycle Industry Council (PCMIC).

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EXECUTIVE SUMMARY

Pakistan motorcycle sector—investment opportunities and prospects, Pakistan motorcycle industry sector is vibrant, flourishing and exemplary, as it achieved 95 percent localisation of body parts of only small engine capacity up to 70cc through latest technology transfer, billions of rupees investment and hundreds of thousands of skilled workers generated. But

industry still faraway of manufacturing and assembling of new technology, new design motorcycle up to 100 cc to 250cc as Pakistan market have big gap and potential of modern low cost motorcycle which is possible from China and sure it is great opportunity for Chinese bikes manufacturers.

The sector progressed tremendously so far due to consistent policy of the government, while

it gave protection to local and foreign investors to expand its businesses locally as well as globally.

The sector is apparently standing on its feet as it is not only able to meet the local demand but soon should also capable of exporting various models to various countries, resulting in becoming a strong foreign exchange earning arm of the country.





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Motorcycle production in Pakistan has increased in past 12 years. It has increased from a mere 100,000 units at the start of the century to around 2.0 million this fiscal. No other industrial sector has shown high and sustained growth during the past one decade. In fact, Pakistan has emerged as global leader in production of 70cc motorcycles. Now even new 125cc bikes are also being exported.

However the proposed abrupt change in policy has promoted the confidence of foreign investors and local manufacturers, following government initiatives to incentivise any new bike maker to enter the Pakistani market to produce new technology motorcycle up to 100cc at lower rate of customs duties.

The plan to allow any new investor to import all motorcycle parts of new technology and new design motorcycle up to 100cc to 250cc at 10% rate of custom duty will be reinforcement of the previous policies and will encourage all original equipment manufacturers (OEMs). The new policies will be supported and in the interest of the country and future industrialisation, which will help to introduce new technology and new design motorcycle from global manufacturers especially by Chinese motorcycle manufactures.

Pakistan needs foreign investment particularly Chinese investment in motorcycle industry sector! However, the country is attracting investment by catering to specific investment proposals as it's the most vibrant sectors where existing domestic and foreign investments are also planning to invest.

The local industry, based on the projection of increase in demand, has already embarked on capacity enhancement plans and by the end of current fiscal year will have invested around \$100 million out of which a sizeable amount is already invested while plans for rest are already submitted.

The proposal given to the government reflects that the existing OEM's also have investment of million dollars in the initial years. So exemptions granted to new entrant should also be allowed to existing small & large assemblers to enhance their capabilities to produce new technology motorcycle, when all existing motorcycle manufacturers have readily paid high duty on the import of parts that are not being produced in Pakistan.

Another good news aspect in this regard is the government allows the new investors particularly foreign investors to import parts from anywhere to assemble the bikes but most probably from China to encourage the new investment from Chinese manufacturers to bring new technology as the existing players have all introduced Euro 2 engines into the market through imports parts from china. Current players are even willing to import hybrid and EFI based engine.

After showing a compounded growth rate of 58% in the past 5 years, sales of new motorcycles in Pakistan appear to be stagnating at between 1,750,000 – 2,000,000 units per annum. This Report titled "the Motorcycle Industry in Pakistan: Investment opportunities & Prospects" aims at identifying... (to be continued...) **MEGA**



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The Motorcycle Industry in Pakistan: Investment Opportunities and Prospects (Part II)

(...continued from last issue)



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CHAPTER 1 INTRODUCTION

1.1 BACKGROUND

The auto industry of which the motorcycle industry is a part has got deep backward (metals such as steel, aluminum, copper, rubber, chrome, nickel, plastic, paint, glass, textiles, electrical, capital equipment, trucking, warehousing) and forward (dealerships, retailers, banking, credit and financing, insurance, logistics, advertising, repair and maintenance, petroleum products, services, parts) linkages as such any major shifts in demand are felt in a variety of other industries.

The industry Worldwide has seen a tremendous growth in the past few years. Production in 2012 has been estimated at 60.0 million units with China producing 19.0 million units. This global surge in demand has also been felt in Pakistan where the industry in the financial year ending June 2012 manufactured more than 1,950,000 units.

There are currently 93 Original Equipment Manufacturers (OEMs) in the Industry. These OEMs are supported by nearly 2,000 parts and component manufacturing units employing close to 50,000 persons.

The industry is volume driven and needs a critical mass before costs and hence prices can start

coming down. This critical mass has been reached and the prices in Pakistan have on the average come down by 30% in the past 5 years.

The development of China as the major player in the global motorcycle industry has been achieved by linking its strong domestic demand to the abundance of Chinese own technology and independent manufacturing. Pakistan has similar situation with its current suppressed demand.

As compared to other industries in which competitiveness can only be achieved with high levels of human capital, the motorcycle industry is more concerned with better management of human resources and high levels of productivity at all levels, i.e. OEMs as well as parts and component manufacturers.

1.2 OBJECTIVES AND SCOPE OF THE REPORT

The primary objective of the report is to carry out the local motorcycle industry along with promotion of the sector and recommending the investment in the sector for both new and existing players.

Scope of work included carrying out a Survey of the OEMs, component manufacturers, government agencies and other stakeholders.





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CHAPTER 2

2.1 PAKISTAN'S MOTORCYCLE INDUSTRY

In Pakistan, motorcycle assembly started in 1964 when the local Atlas Group started assembling Honda motorcycles in Karachi. Currently in addition to Honda, the other Japanese brands being manufactured in Pakistan include Yamaha and Suzuki. The most successful design among the Japanese brands has been the Honda 70CC which enjoys tremendous popularity on account of its fuel economy, resale and low maintenance features.

Pakistan Cycle Industrial Cooperative Society Limited and Siagol Qingqi Motors Ltd (subsequently renamed Qingqi Motors Ltd.).

The Non-Japanese OEMs entered the Pakistani market in the late 1990's by introducing clones of the popular Honda 70CC motorcycle using critical parts and components imported from China. For the basic frame and other low tech parts they used the local vendors (part suppliers) whose development had been facilitated by the Government of Pakistan's indigenization / localization programs for the motorcycle industry.

Presently there are 93 OEMs producing various brands of motorcycles. The Engineering Development Board (EDB) issues licenses to the OEMs for undertaking assembly operations. The Pakistan Standards & Quality Control Authority (PSQCA) is responsible for monitoring the production of quality products by the OEMs. As such both the EDB and the PSQCA play an important role in the establishment, licensing and monitoring of the technical operations of the motorcycle assemblers.

The entry of the local OEM's with a competitive price difference of approximately 30% (Rs.42,000 Vs. Rs.68,000 for the Honda 70CC in 2012 and previous many year) and continuous price reductions (2012 price for average local OEM 70CC clone is Rs.40,000 Vs. Rs.45,000 for a Honda 70CC). This has seen the total motorcycle market increase from 120,627 in 2001 – 02 to 20,00,000 in 2011 – 12. Table 1, shows the sales increases in the past 5 years.

Although the number of assemblers has increased from 3 to 93 the local Chinese continue to hold the dominant market position with 55% of the market share and two Japanese alone accounting for 45% of all new motorcycles sold in Pakistan.

With the increase in production, the prices of motorcycles have come down considerably. In 2011 – 2012, the price of a Honda 70CC motorcycle was Rs.69,000. The same year the local OEMs supplied 70CC clones for Rs.40 – 42,000. In order to compete with the products, Japanese brands considerably reduced prices. As a result of these price reductions, the Honda 70CC is currently selling at Rs.68,000, local brands are available in the Rs.40 – 42,000 range. If this trend in prices continues, the market is likely to expand further.

2.2 PROJECTED DEMAND

Per capita income in Pakistan has increased in the past 5 years at an average annual rate of approximately 14.0%. The economy is projected to continue to grow at more than 7.5% in the coming decade. Assuming an annual decrease in number of persons per new motorcycle purchased in the next 5 years at

14% (Average decrease for last 4 years being more than 30% per annum).

(Table - 1) Sales of Motorcycles in Pakistan

Year	Licensed Production in Units	% unlicensed
2001 – 02	120,627	25.00
2002 – 03	175,169	45.00
2003 – 04	371,007	12.00
2004 – 05	570,085	24.00
2005 – 06	751,667	32.00
2006 – 07	839,617	25.00
2007 – 08	1,054,135	25.00
2008 – 09	910,594	25.00
2009 – 10	1,381,992	15.00
2010 – 11	1,610,681	12.00
2011 – 12	1,800,000	10.00
2012 – 13	20,20,702	00.00
2013 – 14	22,00,000	00.00



CHAPTER 3 ORIGINAL EQUIPMENT MANUFACTURERS AND STAKEHOLDERS

3.1 BACKGROUND

Currently there are 93 Original Equipment Manufacturers (OEMs) operating in Pakistan's motorcycle industry. These include 2 Japanese OEMs and 91 OEMs who are local. The total installed capacity of the OEMs is approximately



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2.5 million units per year as per the Engineering Development Board. The OEMs are located in and around the cities of Karachi (Karachi, Hyderabad & Hub) and Lahore (Lahore, Gujrat, Gujranwala).

The total installed capacity of the industry is 1.31 million units as stated earlier. Table 5 shows distribution of capacity by OEM membership and Model. Table 5 shows that nearly 3/4th of the capacity is in the 70CC model. In terms of sales, the 70CC motorcycle has approximately 85% of the market. The common USP of the OEMs for selling the 70CC motorcycle revolves round fuel economy and trouble free maintenance. The Point of Difference is that while the Non-PAMA OEMs emphasis price (which varies between Rs.35,000 – 42,000 depending on the manufacturer), the PAMA members OEMs stress superior resale value backed by a strong after sales and service backup. With apparently no major product differentiation option available to them, the product manufactured by the Non-PAMA OEMs has for the most part become commoditized with price being the only differentiation element. The present overcapacity in the Industry coupled with low margins and lack of major innovation opportunities in the product class can lead to the weaker players exiting the industry.

3.2 PRESENT TARIFF STRUCTURE

The industry in Pakistan operated under the Deletion Policy formulated and implemented by the Ministry of Industries from 1996 till 2005. This deletion/ localization/ indigenization policy stipulated the mandatory progressive use of a certain percentage of locally manufac-

(Table – 5) Industry Capacity by OEM Origin & Model (Source: EDB & PSQCA)

Sr. #	OEM by Origin	Capacity by Model in Units			Total Units
		70CC	100CC	125CC	
1.	Japanese	400,000	250,000	100,000	750,000
2.	Chinese	850,000	375,000	25,000	1,250,000
	Total	1,250,000	625,000	125,000	2,000,000
	%	72.0%	24.0%	4.0%	100.0%

(Table – 6) Deletion/Localization Targets for Motorcycle OEMs (Source: EDB)

S. #	Model	Deletion/Localization Target				
		June 2001 %	June 2002 %	June 2003 %	June 2004 %	June 2005 %
1.	Upto 70CC	83.00	85.00	86.50	88.00	90.00
2.	B/W 70 -100 CC	82.00	83.00	85.00	85.50	86.00
3.	B/W 100- 175 CC	74.00	81.00	82.00	83.00	84.00

tured parts & components. Table 6 shows the deletion / indigenization targets for the various motorcycle models.

The deletion program which had been framed keeping the capabilities of the local parts and component manufacturing industry in mind, allowed for the import of parts & components whose local production was not possible either because of volume or technological restrictions. The policy applied to both old as well as new entrants. For new entrants this meant that they had to start with the deletion levels already achieved by the existing OEMs. This was one of the reasons for the Non-Japanese OEM's cloning the Honda 70CC model as fairly high levels of localization had been achieved for this model. In addition this model was viewed as a "safe model" from the market acceptance perspective.

With the signing of the WTO, Pakistan moved from the Deletion Policy to the Tariff Based System (TBS) in July 2005. Under TBS protection is provided to the local parts and component manufacturing industry through tariff measures. Table 7 shows tariff rates currently applicable to the motorcycle industry:

3.3 Exclusive Policy of Government of Pakistan for New Investor/New entrant in motorcycle industrial sector to produce new technology motorcycle in Pakistan:

New entrant would mean a potential assembler/manufacturer, whether local or foreign, bringing in new technology for the first time in Pakistan and have had no assembly/ manufacturing of similar motorcycles in Pakistan in the past. Any existing player bringing in new technology would be eligible for tariff incentives to the extent of parts and compo-





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nents to new technology.

New entrant policy for motorcycle of 100cc and above was notified by Federal Board of Revenue (FBR) vide SRO 09(1)/2013 on January 4, 2013 to encourage new investment and new technology in this sub-sector.

As per decision of the economic coordination committee (ECC) of the Cabinet the tariff structure for motorcycle sector was defined as under which is applicable across the board and are subject to review after one year.

The tariff rates have been notified by FBR by amending relevant SROs.

Raw materials, 0 percent duty; sub components/ components 7.5 percent duty; sub-assemblies, 15 percent duty; CBU (all engine capacities), 57.5 percent duty; CKD kits not manufactured locally, 10 percent duty and CKD kits manufactured locally, 38.75 percent duty.

The policy for new entrants was notified by FBR vide notification No SRO 09(1)/2013 dated 4th January 2013 stating that in line with summary on "Policy for New Entrants" submitted by Ministry of Commerce approved by the ECC of the Cabinet case No ECC-135/14/2012 dated 23rd October 2012 which specifies that the

additional customs duty leviable under this notification shall not be charged on sub-components and components imported in any kit form by a manufacturer declared to be a new entrant approved by the new entrant committee comprising representatives of Ministry of Industry, Ministry of Commerce and Board of Investment for the motorcycles of 100cc and above with new technology for a period of five years from start of commercial production subject to following major conditions.

At the start of commercial production by new entrants, localisation level shall be kept at a minimum of 25 percent. By the end of five years, localisation level shall reach a minimum of 85 percent.

The new entrant committee shall be chaired by Secretary Industries comprising representatives of Board of Investment and Ministry of Commerce that shall receive and approve requests of new entrants in motorcycle sector and extension of benefits under new entrant policy. The committee shall also be empowered to decide on proposals relating to introduction of new technologies by the existing manufacturers as well as the localisation plan.

The agreement template for new entrants, including the localisation plan, will be developed by EDB in consultation with the National Tariff Commission (NTC). The agreement would be designed in such a way that new entrant scheme is not misused.

The Federal Board of Revenue will not charge additional customs duty on sub-components and components, imported in any kit form by new entrants (manufactures) in the motorcycle industry. The FBR has amended SRO.693(1)/2006 dated July 1, 2006 through an SRO.09(1)/2013. **MEGA**

(Table – 7) Tariff Rates Applicable to the Motorcycle Industry

Sr. #	Product	Applicable Duty
1.	CBU	57.5 %
2.	CKD Kit Non Localized Parts	10.0 %
3.	CKD Localized Parts	10.0+28.75 %
4.	New technology Complete Unit in CKD/ SKD/CBU condition 100cc and above	10.0 %

(to be continued...)



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The Motorcycle Industry in Pakistan: Investment Opportunities and Prospects (Part III)

(...continued from last issue)



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3.4 REGULATORY BODIES

Primarily there are three major Regulatory Bodies that are involved in regulating and monitoring the licensing and operations of the industry. These include the EDB, the PSQCA and the CBR. Their roles, functions, present views of the industry about them and recommendations for improvement in their functioning are given below.

3.4.1 ENGINEERING DEVELOPMENT BOARD (EDB)

EDB the apex government body under the Ministry of Industries, Production and Special Initiatives is entrusted with the task of strengthening the engineering base in Pakistan. The Board focuses primarily on the development of the engineering goods and services sector on modern lines enabling it to become technologically sound and globally integrated.

In the development of Pakistan's auto sector, the EDB has played a major role as it was responsible for developing and monitoring the deletion/ indigenization program for the auto industry. Under the new WTO regime, it is responsible for implementation of the Tariff Based System (TBS) in the auto sector and for identifying and removing the bottlenecks for the industry.

The EDB is responsible for inspection of assembly / manufacturing facilities in the auto sector. Its mandate includes working closely with the CBR to facilitate auto industry on customs, sales tax and other tax related matters and in proposing easy procedures and formalities. In addition, it is required to update the database on the entire automotive manufacturing sector on a regular basis.

3.4.2 PAKISTAN STANDARDS & QUALITY CONTROL AUTHORITY (PSQCA)

The Government of Pakistan established PSQCA in 1996. It started its operations in December 2000. Three organizations namely, Pakistan Standards Institution (now SDC), Central Testing Laboratories (now QCC) and Metal Industries Research and Development centre (now TSC) have been merged in PSQCA to provide one window standardization, quality control and other technical services.

The PSQCA developed the first Pakistan Standard for the two wheeler auto vehicles in 2000. These standards incorporated the following standards: the Pakistan Standards, Japanese Standards, Canadian Standards, Thai Industrial Standard & the Environmental Protection Agency (EPA) regulations. The Standards were revised in 2004 taking into account changes in international emission standards.





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3.4.3 FEDERAL BOARD OF REVENUE (FBR)

The FBR is a part of the Ministry of Finance & plays an important role in developing the fiscal policy of the country. CBR is heavily involved in also implementing various revenue collection method tools used by the government for generating revenue. These may include corporate tax, income tax, sales tax, custom duties, etc. It has offices all over the Country. During the recent past, the CBR has undergone a major restructuring and modernization program.

CHAPTER 4 PARTS & COMPONENT SUPPLIERS (VENDORS)

4.1 BACKGROUND

The local parts & component suppliers also referred to as vendors have developed by working closely with the OEMs. These OEMs were required under the deletion / localization / indigenization program to progressively use local components.

The rise in production of motorcycles in the past 5 years has led to increased demand for parts and components. The component industry has not been able to capitalize on this demand increase.

The local component industry comprises mostly of SMEs. These numbers have been estimated at between 1,600 and 2,000. Most of the parts and components being supplied to the OEMs by the local component manufacturers do not require high levels of technology.



4.2 TRANSACTION BASED COSTING

Currently the sales tax rate is 15% on all supplies made to the motorcycle OEMs. For example if an OEM purchased components from suppliers worth Rs.10,000, he would receive invoice for Rs.11,500 which he would have received from a sales tax registered supplier.

When the OEM sells the final product say for Rs.40,000 he would have to calculate and deposit sales tax @ 15% of his selling price, which in this case would be Rs.6,000. If his suppliers had given the OEM sales tax invoices for Rs.11,500, the OEM would have been able to deduct the Rs.1,500 paid as sales tax from his final sales tax liability and deposit the difference which in this case would be Rs.4,500 and not Rs.6,000. This would affectively increase his profits or reduce his costs by Rs.1,500.

4.3 TARIFF & NON TARIFF PROTECTION

The component industry enjoys tariff protection under the Tariff Based System (TBS). Under the TBS, those parts which had been localized prior to 2004 carry an import duty of 50% while non localized parts carry a duty rate of 35%. As the motorcycle industry had reached substantial level of local content which in some cases was, as high as 90% with the 70CC model. The localized parts and components carry high levels of tariff protection. However this protection is not available for parts which are imported in CKD kit form.

Non tariff protection is provided by the EDB when it insists that OEMs either purchase localized components from Pakistani component manufacturers or else import them directly. OEMs are not allowed to purchase from the commercial importers. **MEGA** (to be continued...)



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(...continued from last issue)



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CHAPTER 5

5.1 PAKISTAN EXPORT POTENTIAL

Pakistan's domestic market has reached the critical mass which may lead to further economies of scale. It is therefore important to put in place measures which not only sustain domestic demand growth but also encourage exports.

The total production of motorcycles reaches 2.2 million units by 2013 – 14. Out of this, the local OEMs should aim to export units to Bangladesh, Sri Lanka, Afghanistan, and the six Central Asian Republics via Afghanistan.

5.2 EXISTING LOCAL OEMS AND THEIR CURRENT CAPABILITY

ATLAS HONDA

Atlas Honda has taken the following measures:

Atlas Honda has successfully negotiated global rights with Honda Japan to export the 70CC motorcycle and regional rights for the 125CC motorcycle

Achieved 93.0% localization which gives them a cost advantage

Worked actively with their supply chain to reduce costs of the components

As arranged over 20 technical collaborations for its vendors in Pakistan with the Japanese manu-

facturers

SUZUKI MOTORCYCLES

- The Suzuki Motorcycles Pakistan Limited is 84% owned by Suzuki Japan. It is currently producing only 20,000 units of 100, 110, 125 & 150CC capacity.

- The installed capacity of the plant is over 100,000 units which the management is planning to utilize in the next five years.

- Suzuki is currently concentrating on the domestic market where it is investing in developing its dealer network.

- Also the company is investing in developing its vendors

- The Company at the moment has no rights for exports, however on a country to country basis permission maybe obtained

YAMAHA MOTORCYCLES

- Yamaha Building Motorcycle Plant In Pakistan

- TOKYO (Kyodo) -- Yamaha Motor Co. will build a motorcycle plant in Pakistan with the aim of starting production in 2015, in an attempt to expand its business in an untapped emerging market, company President Hiroyuki Yanagi said in an interview with Kyodo News.





Pakistan is a country located in South Asia, bordered by Afghanistan and Iran in the west, India in the east and China in the far northeast



Pakistan

- Yamaha will first invest 1.3 billion yen in the Pakistani plant before increasing the amount to a total of 10 billion yen by 2020 to raise its production capacity to 400,000 units a year.

- “Motorcycles sold now in Pakistan are mainly Chinese-made, but they are very old,” Yanagi said. “We’d like to stimulate the market by introducing new models.”

- Yamaha has set its initial production target at 40,000 units per year.

- The motorcycle market in Pakistan is expected to double to 3 million units in 2020 from the 2013 level of 1.5 million, according to the Japanese manufacturer.

QINGQI MOTORS;

QINGQI is the only identified Chinese brand in Pakistan with Chinese brand name, investment and expertise.

PAKISTAN ORIGIN NAMELESS CHINESE MOTORCYCLES

There is no well known Chinese motorcycle and parts manufacturing brand still operating in Pakistan except the QINGQI but all the other local brands adopted to call Chinese motorcycle for their manufactured products due to import of critical parts from China by well known OEM parts suppliers. That is why we called them local brands as unknown Chinese brands.

All local Chinese brands together producing the 1.3 million of Pakistan’s total motorcycle production and enjoying 55% share of market

CHAPTER 6

6.1 INVESTMENT OPPORTUNITIES AND PROSPECTS

PCMIC takes pleasure in portraying several investment opportunities pertaining to rehabilitation and modernizing its member’s selected factories and establishment of new factories in the motorcycle sectors of auto industry of Pakistan.

Pakistan will be amongst the top five countries producing and exporting high quality motorcycles in the next few years.

It is suggested to global Chinese manufacturers to grab the opportunities before the Indian and other manufacturers step in Pakistan as they all planned.

With the hard work of PCMIC members & associates, Pakistan Motorcycle Industry today stands at the turning point from where the sales and production will touch the ever high-est in the history of the country.

It is encouraging that after investing by Chinese firms in Pakistan motorcycle industrial sector, Industry should increased its motorcycle production capacity to 2,750,000 vehicles annually keeping in mind the growing local demand, one of the largest motorcycle markets in the world, and export potential to regional countries.

Specialized International/Chinese Companies, Businessmen, and Financiers are invited to participate in opportunities that may achieve economic viability and create rapid positive revenues. The concept is that the investors and their supporting teams would

rehabilitate and manage the plant on their account against a share of production achieved for a negotiated period of time.

The strong points of these opportunities are:

- High local demand for the products.
- Availability of trained and experienced manpower.
- Availability of local raw materials.
- Adequate investment legislations and favorable terms for agreement.
- Fast return on investment.

The PCMIC expresses its willingness to assist investors with all the necessary clarifications as well as facilitating essential visits to the factories (if required). Interested investors are kindly requested to submit their inquiries to chairman PCMIC at pakchina.mic@gmail.com at their earliest.

The PCMIC report on motorcycle industry of Pakistan is the only consolidated collection of investment in the motorcycle sector in the county which provides a timely and reliable source of information primarily for business (especially investors), and also for investment promotion agencies, government policy makers, academics, and regional and international organizations in Pakistan and other regions.

The report will assist entrepreneurs in making sound investment decisions and policy makers in formulating consistent and coherent strategy decisions. This version is composed of information compiled by the PCMIC experts and marketplace member. **MEGA** (to be continued...)



Pakistan



The Motorcycle Industry in Pakistan: Investment Opportunities and Prospects (Part V)

(...continued from last issue)



Muhammad Yousuf Shaikh

The Founder & Chairman of Pakistan China Motorcycle Industry Council, offers his analysis of the motorcycle trade & industry trends from Pakistan & China. As the Chairman of PCMIC working with motorcycle trade & industry for over two decades, Yousuf believes that new projects with foreign investment particularly Chinese investment could help Pakistan to design and produce its own automobiles mainly motorcycles, engines as Pakistan has strong brotherly & bilateral trade relation with China.

pakchina.mic@gmail.com

6.2 Introduction to Investment Sectors:

PCMIC recommends Chinese motorcycle manufacturers to invest in Pakistan's motorcycle sector as there are numerous investment opportunities in Pakistan. I would like to invite them to take part in the automotive sector. The avenues exist in setting up new technology motorcycle and engine manufacturing units and for their integral parts which are presently being imported. The PCMIC offers to assist Chinese manufacturers in finding local partners for them since the Government is interested in promoting competition in the auto sector.

Currently Japanese brand motorcycle manufacturers have 45 percent share in the motorcycle sector, whereas the Chinese share in the latter is 55 percent. Notably, about during 2010-11, motorcycle production was way beyond at 1,535,427 units. Any manufacturer can invest in Pakistan under the Auto Industry Development Programme (AIDP) or the Tariff Based System (TBS). The government intends to make the existing policy regime more flexible for new entrants in order to attract foreign investment. An amended policy is expected soon and it is

emphasized that Chinese manufacturers would be persuaded to explore the Pakistani market.

For any query with respect to this report or any other content requirement, please contact the author at pakchina.mic@gmail.com. PCMIC is pleased to provide the following services to foreign or local investors in the Auto Industrial sector.

- Undertake customized market research and statistical reports on the Pakistan Auto Industry market.
- Identify automotive products; both vehicles and components for import and export.
- Help find distributors and suppliers of automotive products.
- Identify and evaluate potential cooperative or joint venture partners.
- Help setup dependable business networks in Pakistan.
- Conduct legal, financial, human resources, Technical management and feasibility studies.
- Help negotiate automotive business deals.





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Pakistan

- Help with liaison and management of business ventures in Pakistan.
- Help identify and locate local executives and employees.
- Walk our customers through the Pakistani maze of bureaucracy.
- Services on a retainer basis are available.

The investment opportunities in PCMIC report as a major two-fold objective. Firstly, The Pakistan/China Motorcycle Industry has an emerging investment opportunity in public/private partnerships to set up an inventive Research & Development Production Facility. Secondly, this is a much needed industrial project which is profitable and feasible due to a big demand in our local market. This prompts me to draw the kind and valuable attention of prospective investors towards what I mention below.

The Pakistan Auto Industry has been around for more than 60 years, and today is considered to be a source that is highly important to our country's economy. The motorcycle industry employs an estimated 100,000 people. Over 2 million motorcycles are manufactured annually. All auto assemblers-cum-manufacturers at present are Pakistani. The majority of the motorcycles being manufactured in Pakistan are of 70CC capacity. Most of the parts used in the frame, suspension, engine etc are interchangeable, or can be used with mi-

nor adjustments. But all Pakistani motorcycle manufacturers still depend on foreign technology and the country is still unable to design and produce its own motorcycle; especially the engine and key parts. This makes it difficult for the industry to develop and produce new models/designs to fulfill the demand of the market.

Pakistan's Chinese dominated motorcycle assembling continues to see a strong growth in terms of production and marketing and are forcing the industry and investors to explore alternative opportunities; including working with international partners and expanding into research and development (R&D) services. The Motorcycle production has increased from 100,000 units at the start of the century, to around two million units per year and expected three million in 2020. Despite this fact, Pakistan still does not have any dedicated manufacturer of the key parts of motorcycles such as the Complete Engine, Carburetor, Drive Chain, Timing/Cam Chain, hundreds of separate engine components (Cylinder Head, Ring/Piston Set, Ball Bearings, Bushes, Timing Chain, Crankshaft, and many other components) and also the Handle Switches, Lock Sets, Wheels Hubs & Breaks, Complete Front and Rear Shock-absorbers in dismantled condition and Speedometer Movements; therefore these are 90% imported through different channels.

Moreover, there was a time that motorcycle production was as low as 100,000 units per year whereas this figure now stands at two million units per year. This fact makes it eco-

nomically feasible to produce ancillary items; mainly the motorcycle engines.

The engine is a core part of the motorcycle, and the demand for motorcycle engines is directly related to the demand for motorcycles. The motorcycle engine market has great potential as a result of the booming motorcycle demand. Better performance motorcycle engines are needed due to the demand of shifting from standard two-wheel motorcycles to more sophisticated and technically advanced models. Motorcycle engines are in the process of upgrading to low emission, low vibration, low noise and low heat load engines with displacements over 125cc.

Along with the sales of three-wheeled motorcycles (also known as tri-wheelers) in Pakistan, demands for their engines are also growing fast. The three-wheeled motorcycle manufacturers of Pakistan also do not have the ability to produce their required engines. Also, the technology to produce such engines is different from those of two-wheeled motorcycle engines due to their exclusive features. Hence, international market demands will be satisfied by those manufacturers that have the R & D and manufacturing capabilities for three-wheeled motorcycle engines as well.

MEGA (to be continued...)



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Pakistan



The Motorcycle Industry in Pakistan: Investment Opportunities and Prospects (Part VI)

(...continued from last issue)



Muhammad Yousuf Shaikh

The Founder & Chairman of Pakistan China Motorcycle Industry Council, offers his analysis of the motorcycle trade & industry trends from Pakistan & China. As the Chairman of PCMIC working with motorcycle trade & industry for over two decades, Yousuf believes that new projects with foreign investment particularly Chinese investment could help Pakistan to design and produce its own automobiles mainly motorcycles, engines as Pakistan has strong brotherly & bilateral trade relation with China.

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Our motorcycle industry is divided into two markets. The mainstream market consists of manufacturers who are from overseas joint ventures. The other market is the niche market, consisting of SMEs producing Chinese motorcycles. These are Pakistani-owned companies that depend on design and production technology from abroad. In this market most of the companies are Pakistani and products are sold domestically, where there is little foreign competition. Most of the involved parties have not been utilizing enough technology in terms of design, manufacture and engineering.

Due to the importance of the Pakistan motorcycle industry, the Pakistan China Motorcycle Industry Council (PCMIC) has planned to invite foreign investors to set up a support programme for a Motorcycles and Parts Research and Development Institute & Production Facility under the industrial and services cluster group. This will enable specialized industries to have the capability to design and produce motorcycle engines and other parts which are still not indigenized in Pakistan.

It will be a profitable and risk free investment for foreign investors which helps strengthen the niche market in the future and also provide technology for design, production and engineering for Pakistani

parts-makers in order to raise their capabilities. The PCMIC seeks a strategic planning alliance in a public/private partnership that should be targeted at stand-alone parts design and manufacturing. The project is intended to create an automobile platform for Pakistan that would be relayed to the private sector.

The second phase of the project would address automobile and parts manufacturers, and the PCMIC would collaborate with various Government Departments like the Military Vehicles Research & Development Establishment (MVRDE), MoST, Engineering Development Board (EDB) etc. With such a coordinated approach it will be possible to include niche areas of interest to specialist Government Organizations in the development effort. Four areas would be targetable:

- New Design & New Technology
- Motorcycle & Engine Manufacturing Units & Their Integrals Parts Presently Imported
- Multipurpose Larger Sized Engines (200 cc and above)
- After Sales Parts

The PCMIC proposed plan of inviting foreign investors to set up an inventive research & development





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facility and centre of excellence of motorcycle engines at Sunder Industrial Estate, Lahore, is meant to ensure that the council is able to provide a comprehensive development capability in these important and interlinked market sectors. Engineers at the centre would be able to deliver turn-key motorcycle projects including small engine program drawings and technology from across China.

The proposed project will be carried out by China based Chinese Manufactures and Pakistan's Chinese Motorcycle Assemblers through PCMIC, in cooperation with the MVRDE, Local parts Vendors and financial institutes. The project is expected to be co-financed by all the stakeholders and the Government. The Government is being requested to kindly provide interest free loans & allow a tax holiday for five years to this project. If this happens, it will be in the interests of all to design the cleanest possible engine within reasonable cost and performance constraints will require a "Team Approach" and the project will require intensive investment & huge financial resources. The support and guidance provided by the Government would be a great instrument for the phenomenal growth of this sector.

Motorcycle and small engine projects are frequently characterized by application-specific requirements. Volumes of production in particular can vary widely from niche applications, to hand-held tool applications for which the quantities produced can often vastly exceed those of mainstream automotive products. Despite these differences, motorcycle and small engine projects tend to share many of the

stringent design targets of larger power units such as optimized fuel consumption, regulated emissions, quality and, of course, lifetime cost. The existing capability in motorcycle production & marketing should further enhance the commissioning of a motorcycle research & development facility.

Underscoring the PCMIC's commitment to the growing two-wheeler sector – from luxury Chinese & Pakistani brands to the value-driven products popular in Asia – the PCMIC is pleased to assist them to establish the whole project business scope involving projects of manufacture, assembly and processing of motorcycle body parts and manufacturing of engines.

PCMIC experts prepare expansion plans for an Engine Assembly Plant with a built-in Quality Assurance System consisting of the Longest Conveyor assisted Motorcycle Assembly Facilities integrated with "Quality Gates" and Test Equipment to meet ever increasing market requirements.

► (1) Also, the exclusively negotiated and favorable agreements between the Pakistan government and Chinese manufacturers by PCMIC are in place for localization of components through establishment of in-house and vendors' facilities.

► (2) Developed parts of 70CC, 125CC & 200CC to ensure to manufacture the motorcycle engines including backward integration for Forgings & Castings and use special steel materials from Pakistan Steel Mills (PSM).

► (3) Preparation of Technical and Commercial

Feasibility for the production of core technology of motorcycle engines and frame components along with project supervision by PCMIC experts.

These efforts are supposed to facilitate numerous motorcycle companies and protect thousands of jobs in this automotive sector and to develop emerging technologies that become the driving industries of the future. If the government works together with PCMIC for manufacturing of these common parts; especially motorcycle engines, based on production figures the total OEM market for these parts can be determined. In addition the replacement market demand can also be estimated at various price options. For those parts where critical volumes are available, the Government & PCMIC should try and foster "embedded" linkages between the Government, the Services Cluster Group, Assemblers, Vendors, Importers and banks as a consortium that are willing to make the investment.

To do that, Pakistan's Chinese vehicle manufacturers need an ever more strategic, collaborative relationship with the Government and to be working with the supply chain and other stakeholders to achieve long-term goals. I want the Council to help make that happen. The Motorcycle Industry Council will be an opportunity for the industry & the Government to work together on the long term strategic development of the sector.

THANK YOU & Welcome to Pakistan MEGA

