

Is Pakistan Ready to Ride the EV Wave with China?

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SYNOPSIS

Pakistan risks missing a major economic opportunity as global demand for electric vehicles surges and Chinese manufacturers seek overseas production hubs amid rising Western tariffs. With a young workforce, liberal investment policies, and CPEC-backed infrastructure, Pakistan is well-positioned to attract Chinese EV relocation. Therefore, strategic Sino-Pak cooperation could boost exports, create skilled jobs, and reduce fuel imports.

COMMENTARY

The global demand for electric vehicles is the new gold rush- one that, like those before it, offers the potential to altogether alter the fate of economies. While China has staked the lion's share in the fast-growing market, Pakistan sits on the sidelines, unable to meet domestic EV demands and missing out on the scarce gold mine of dollar reserves. While the world paves the way for a large-scale EV adaptation, Pakistan struggles with air pollution, congested roads, and imported fuel dependency. Yet, herein lies an unprecedented opportunity. This stagnant situation can be remedied through a strategic alliance with its all-weather friend, China. Joint Sino-Pak ventures into EVs can not only shift Pakistan's industrial landscape but also help mitigate the headwinds of environmental degradation.

The growing EV demand has proven to be more than just a trend. According to the International Energy Agency, nearly 14 million electric vehicles were registered in 2023 worldwide, representing a 35% year-on-year increase. IEA projections put the annual sales for 2024 at 17 million, reaching about 18% of all new cars sold, with Chinese manufacturers accounting for 60% of this worldwide production. Similarly, Chinese consumers accounted for 60% of these sales, followed by Europe at 25% and the US at 10%. The numbers for growth remain strong due to increased competition, falling battery prices, and stable policy support globally. Given the policy settings remain steady, one in every two cars sold will be an EV by 2035. Although the EV production has remained concentrated in China, due to numerous reasons discussed below, these production shares are now diluting. Emerging economies like Vietnam, Thailand, and Mexico are eyeing and orienting in favorable positions to absorb large chunks of FDI in the EV sector, particularly through Chinese industry relocation. On the other hand, Pakistan, an economy with a bulky and young workforce, largely relies on the export of unprocessed goods. Failing to capitalize on this opening, it stands at a crossroads, much like a promising athlete stuck on the

bench during the world championships. It is time for Pakistan to get in the game. A joint foray with China into the EV market maybe the answer. It is a win-win scenario that stands to offer significant returns to both nations.

A report from the Pakistan Business Council clearly underlines Chinese FDI in the EV industry as the sweet spot. It would not only produce jobs for the youth but also significantly enhance the quality of the local skilled force through the transfer of manufacturing technology. Resultantly, Pakistan would be able to rapidly break into value-added product exports leading to a reversal of the premature deindustrialization of Pakistan allowing the country to embrace the “Make in Pakistan” vision. This would also allow for import substitution by meeting local demand through lowering reliance on foreign vehicle imports and significantly cutting the massive fuel import bill.

China stands to gain equally from the partnership. Consider the recent protectionist policies: President Trump imposed a 25% tariff on Chinese EV imports, which the Biden administration later increased to 100% in 2024. Now that Trump is returning to the power corridors, he has announced a further 10% blanket tariff on all Chinese imports. While Chinese EV demand has largely originated at home up till now, the market is now experiencing a high base effect, meaning that it will be exceedingly difficult to maintain high growth rates by only selling in the Chinese market. This puts more pressure on the foreign markets to absorb surplus production. Anticipating this competition in July 2024, the EU preemptively slapped a 37.6% tariff on EVs imported from China, citing a violation of free trade rules. By August 2024, Canada had also ramped up the tariffs to a staggering 100%.

Gradually rising labor costs in China are also a mounting concern. Pakistan, under such circumstances, presents a friendly spot with not only low operating costs due to ample labor and an untouched EV market but also a way to circumvent expectedly increasing tariffs. This is well complemented by the comprehensive infrastructure and policy frameworks in place laid down by CPEC. This is not just a pipe dream. Precedents for successful collaboration along similar lines such as the production of the JF-17 fighter jet, exist. PM Shehbaz Sharif has demonstrated significant political will in aiding the process of industry relocation recently. Special Economic Zones developed under the CPEC umbrella, can provide an established regulatory framework for such an initiative. On the policy front, Pakistan boasts a liberal and undifferentiated investment policy that allows 100% ownership and full control of remittances. Initiatives like the Auto Industry Development and Export Policy (AIDEP) are already bearing fruit. For example, China’s largest EV manufacturer, BYD, has announced plans to set up manufacturing plants in Karachi, Pakistan, in partnership with local Mega Motors Company. With competitive incentives, Pakistan can attract a sizeable chunk of the \$150 billion worth of EV, lithium batteries, and solar products export industry looking to offshore.

Although Pakistan exhibits all the raw characteristics of a thriving manufacturing hub, this journey is laden with numerous obstacles. Pakistan faces serious competition from popular industry relocation destinations in the region like Bangladesh, Vietnam, Cambodia, Laos, and India, not only because of its relatively less established industrial base but also due to low workforce productivity. With the withdrawal of the Regional Competitive Energy Price (RCET) in 2023 by the government, the industry also lags in cheap sourcing of energy compared to competitors.

The successful execution of this ambitious plan requires a multifaceted approach. On part of the Pakistani government, it should lay a long-term, clear, and consistent policy framework to foster investor confidence. Export-oriented subsidies, tax breaks, and low-interest-rate loans can aid new businesses. Pakistan's infrastructure in terms of connectivity, cheap and reliable electric supply, and EV charging networks needs major upgrades. Similarly, security concerns must be simultaneously addressed which serve as major FDI deterrent.

The private sector, with government encouragement and support as outlined above, should invest in industry-led skill development programs and aim to develop locally sustainable supply chains as well as home-grown brands. With the government's backing, these brands can capture significant export markets as demonstrated by Turkey's "TURQUALITY" program. Finally, implementing a differentiated FDI policy would allow the shift from fast-moving-consumer-good (FMCG) investment to long-term export-oriented FDI.

CONCLUSION

While there are hurdles that the nation must jump, the time to get to the heart of action is now. To materialize the vision of a prosperous Pakistan through national development, job creation, and long-term stability, Pakistan must seize the window of opportunity provided by the EV industry, in tandem with its Chinese counterparts. Now, it is up to Islamabad to address the Chinese concerns of personnel security, provide adequate infrastructure, initiate liberal tax regimes, and incentivize Chinese FDI.