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TRADE FACILITATION FOR ECONOMIC CORRIDORS IN SOUTH ASIA: THE PERSPECTIVE OF PAKISTAN

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Abstract

This study outlines the role of trade facilitation in Pakistan for economic corridors in South Asia. We study the current state of trade related infrastructure in Pakistan and its connectedness particularly with Afghanistan and India. The implications of recently initiated Afghanistan – Pakistan transit trade agreement are discussed. Current impediments in expanding trade relations with India are revisited. A perception survey reveals the issues faced by importers and exporters particularly those dealing with Afghanistan and India. We also held detailed focus group discussions where government functionaries and commercial counselors also participated. The policy recommendations are grounded in existing literature and survey results.

The report has highlighted the required improvements in infrastructure arrangements to facilitate trade for fostering cooperation in South Asia between Pakistan, Afghanistan and India. However, trade facilitation also requires harmonizing customs procedures and harmonizing the regulatory framework of other controlling authorities at the border crossings. Linkages need to be established among the customs organizations of the respective countries to exchange data so that export document of one country could serve as the import document of the other country. The phytosanitary and other quality standard of the countries need to be exchanged and harmonized to the extent possible to eliminate the technical barriers to trade. Finally the relations between India and Pakistan must be broad-based and allow guarantee towards non-reversal of a liberalized bilateral trading environment. Towards achieving this objective governments on both sides must be helped by the business community and civil society.

Pakistan must also realize that while additional investment in trade infrastructure is necessary for sustaining economic growth, an equal emphasis is required to address issues that keep the existing infrastructure underutilized. In its overall infrastructure score, Pakistan is almost in line with its regional competitors, however it fares poorly when it comes to organizing and managing the already available assets.

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1. Introduction

Pakistan is fast moving towards the reform of public sector enterprises dealing with nation-wide connectivity, development of National Trade Corridor (NTC) and opening up of transport and communication sectors for foreign private investment. Linking Pakistan with China, Central Asian and South Asian countries with road and railway networks remain prime agenda of the government. In this respect the government initiated US\$ 9 billion programme for NTC, which is planned to be completed in next five years. However, with the present fiscal constraints (and a reduced development budget) the program is likely to take much longer for its implementation. This substantial networking is intended to facilitate connectivity through rail and road domestically and between Pakistan's neighboring countries. This is also expected to better integrated urban and rural economy, small and medium enterprises (SMEs), and urban wholesale, retail and warehousing sectors with port cities.³

Out of the total \$ 9 billion allocated for NTC, \$ 5 billion would be spent to improve country's highways and US\$ 1.5 billion has been allocated to modernizing Pakistan Railways and expanding its tracks up to Afghanistan and Iran, whereas the rest would be invested for improving ports, airports and providing other facilities to improve bilateral trade. It has also been planned that trade zones would be established along with motorways in order to reduce the cost of doing business and making Pakistani products more competitive internationally. The current dismal performance of the transport sector costs the economy around 4 to 6 percent of GDP annually⁴. In 2006 domestic transport represented 1.3 percent of the final value of commodities⁵. Improved external logistics would generate savings in costs of non-factor services estimated at US\$ 525 million annually.⁶

At present, Pakistan's total overland trade demand is about 138 billion ton-km and by 2012 it is likely to touch 160 billion ton-km. Under the NTC facilitation programme, the trade corridor's capacity would be increased to 204 billion ton-km⁷. In existing situation the container dwell times at ports are 7 days —3 times that of developed countries and East Asia. Road freight (which carries 95 percent of cargo) takes 4-6 days between ports and north of the country —twice the equivalent time in Europe and East Asia. The trucking rates for high value added commodity traders are higher than India and Brazil, and same as China (where service quality is higher) and rail carries less than 5 percent of freight and takes from 1 to 2 days on main line (Karachi-Lahore); and up to 16 days (Karachi-Quetta) to deliver upcountry. This is 3 times slower than China and US⁸. Pakistan is well below the average of regional comparators when it comes to achieving a level of connectivity that can supplement economic growth in the long run (Figure 1).

³ It is estimated that improving major highways, railways and ports has the potential to increase country's trade by well over US\$ 100 billion in the next decade.

⁴ Pakistan: National Trade Corridor Program, SAR Regional Strategy Update, 2007

⁵ Pakistan: National Trade Corridor Program, SAR Regional Strategy Update, 2007

⁶ SAR Regional Strategy Update, January 2007

⁷ National Trade Corridor Improvement Program (2007), Planning Commission of Pakistan

⁸ National Trade Corridor Improvement Program (2007), Planning Commission of Pakistan www.pc.gov.pk.

Figure 1 Connectivity – Growth Nexus



Source: Connecting to Compete 2010, World Bank

A cross-border economic corridor promotes regional economic cooperation through enhanced trade, investment and production. A typical economic corridor covers smaller, defined geographic space usually straddling a central transport artery such as a road, rail or waterways. Physical connectivity provides the base for trade between countries. The SAARC Regional Multimodal Transport Study (SRMTS) has identified a number of regional transport corridors to promote intraregional trade. This study has identified three road corridors that are connecting India with Pakistan and Afghanistan.⁹ The first one is linking India-Pakistan-Afghanistan; the second and third are Pakistan-Afghanistan routes.

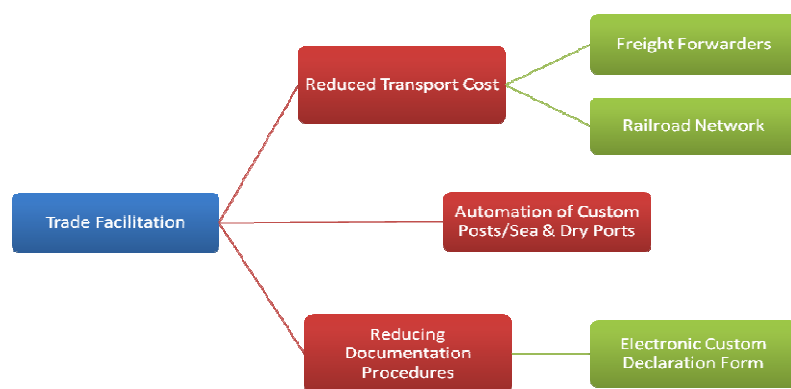
Connectivity is crucial for seamless movement of goods and services. However, connectivity becomes effective only with the support of adequate soft infrastructure. Countries like Pakistan should realize that they are not organizing and managing even the existing infrastructure in the optimal manner. Therefore, this study will present the Pakistan perspective on the need for improved trade facilitation and transit along SAARC road corridors. It is hoped that this study will set the stage for more comprehensive and quantitative research on the subject in future.

2. Scope of the Study

Trade facilitation is meant to reduce complexities of international trade induced by documentation, procedures and regulations required to be followed in the supply chain from exporting country to the destination country (Figure 2). These complexities often also hinder domestic commerce. The scope of this study is to review existing status of trade facilitation measures in Pakistan particularly with respect to its trade with South Asian trade partners, particularly India and Afghanistan, and to identify the measures so as to foster regional cooperation for enhanced trade. The study covers customs as well as other border institutions and their governance, transit formalities, dispute settlement, safeguards, information flow and other important aspects of trade facilitation. To evaluate the trade and transit facilitation along the SAARC multimodal transport corridors, this study considers only those custom stations which fall in SAARC regional transport corridors connecting Pakistan, Afghanistan and India.

⁹ 1) Wagha-Lahore-Rawalpindi-Peshawar-Torkham 2) Quetta-D.I. Khan-Peshawar-Torkham 3) Karachi-Kalat-Quetta-Chaman

Figure 2 Processes in Trade Facilitation



The next section provides a global and regional review of literature and is followed by findings from existing surveys. We then provide in detail Pakistan’s trade and logistics potential with South Asia and a comprehensive discussion on transit trade agreement between Afghanistan and Pakistan. The trade potential with India is discussed in the subsequent section. Finally we provide results from our perception survey and focus group discussions.

The study uses both the primary and secondary data. For primary data, a detailed questionnaire (see Annexure 1) was designed and used for the sample given below. In depth personal interviews and focus group discussions were also held. We used the following sources for compilation of our micro level evidence.

Traders (Individuals/Business Groups)

The Ministry of Commerce in Pakistan provided a comprehensive database for firms involved in regional trade. Subsequently the questionnaire was sent around 600 firms.

Trade Associations (Chambers of Commerce and Commodity Specific Associations)

The questionnaire was sent to the Chambers of Commerce in Lahore, Islamabad, Peshawar and Karachi. We held detailed focal group meeting with the Punjab cluster which included Gujranwala, Gujrat, Wazirabad, Sialkot and Sargodha.¹⁰

Government Organizations

a. Trade Development Authority of Pakistan (TDAP)

The Trade Development Authority of Pakistan (TDAP), which was established in November, 2006, under a Presidential Ordinance, has Ministry of Commerce as its administrative ministry. TDAP is the successor organization to the Export Promotion Bureau (EPB) and is mandated to have a holistic view of global trade development rather than only the ‘export promotion’ perspective of its predecessor. TDAP regularly participates in 40 to 60 international trade exhibitions annually, sends trade delegations abroad, organizes EXPO Pakistan which is well

¹⁰ We would like to acknowledge the help of Mr. Majid Shabbir, Secretary General, Islamabad Chamber of Commerce & Industries. For the meeting with Punjab cluster, facilitation provided by GIFT University, Gujranwala is greatly acknowledged.

attended by foreign buyers and implements various trade policy initiatives announced by the Commerce Ministry.¹¹

b. Pakistan Customs

Pakistan Customs is the guardian of Pakistan borders against movement of contra band goods and is facilitator of bona fide trade. It provides a major source of revenue to the Government of Pakistan in the form of taxes levied on the goods traded across the borders. It also helps to protect the domestic industry, discourage consumptions of luxury goods and stimulate development in the under developed areas.¹²

c. Ministry of Commerce

Ministry of Commerce is responsible for design and implementation of trade policy in Pakistan. It also oversees tariff structure in liaison with Federal Board of Revenue. The ministry has greatly expanded its activities in to spheres such as: anti-dumping duties, countervailing duties and safeguard laws, inter-provincial trade, domestic commerce, organization and control of Chambers and trade associations, law of insurance and regulation and control of insurance companies, administrative control of attached departments/organizations, selection of trade officers for posting in Pakistan's Missions abroad. Other public sector organizations included Planning Commission, Engineering Development Board and Ministry of Interior.

Trade Attaches/Commercial Counselors

We established contacts with attaches in the: a) Embassy of Pakistan in India, and b) Embassy of Pakistan in Afghanistan. Their responses and observations are explained at length in this report. This study highlights the importance of strengthening the commercial counseling services at the embassies in both countries.

Transport Sector

Pakistan's transport sector is still heavily regulated and the entry of private sector is marred with multifarious challenges. In order to identify these difficulties we held in depth discussions with public and private sector operators in the trucking and railways sector. The national trucking policy is awaiting approval of the parliament for the past 3 years. Until now the trucking sector has not been declared as an industry in Pakistan, which in turn is affecting the livelihoods of people associated with the transport and distribution activities in this sector. For railways the supply chain is dominated by the public sector and the need for privatizing railways is growing due to inefficient operations posting substantial losses. Having said this, the biggest transporter of cargo is still the trucking sector and it is pertinent to describe this sector here in a bit more detail.

Trucking Sector

National Trade Corridor Improvement Program (NTCIP) in Pakistan has emphasized the improvement and modernization of transport logistics of the country. To compete regionally and

¹¹ For more information: <http://www.tdap.gov.pk/>

¹² For more information: <http://www.fbr.gov.pk/newcu/>

internationally trucking sector modernization is required, as the dependence on road freight is almost 96 % of total ton/km and it is growing fast¹³. The NTCIP objectives were to replace obsolete 2-axle and 3-axle rigid trucks, encourage modern and multi-axle prime movers and euro standard trucks by rationalizing imports tariffs, providing incentives for the fleet operation, declaring trucking sector as an industry, and replacing the ineffective Motor Vehicle Examination (MVE) with a modern system.

National Logistic Cell (NLC) is a corporate entity, which maintains and operates large numbers of trucks and trailers for movement of cargo by road. Besides this it operates dry ports. Dry ports have been established to clear the congestion in the sea ports and facilitate the domestic and international trade. Currently, dry ports operations are managed by two organizations mainly by Pakistan Railways and National Logistic Cell. NLC provides transportations, logistics, safe and accessible warehouses, custom clearance and handling facilities.

Following dry ports are operated by NLC

- Thokar Niaz Baig, Lahore
- Quetta, Baluchistan
- Jamrod, Peshawar
- Hyderabad, Sindh

The trucking sector is dominating the ton/kms freight due to weak and unreliable railways system. Therefore the sector inefficiencies are costing the economy approximately Rs 150 billion; which consists of Rs 60-90 billion/year as extra fuel cost and subsidies on fuel, Rs 30-35 billion/year as additional road users costs and Rs 25 billion/year to infrastructure deficit. The reason for these costs is around 195 thousands trucks on the roads comprising: 70% 2-axle and 22% 3-axle trucks; and 1.2% 3-Axle 6.5% 4-Axle and 1.92% 5 and 6 axle trailers. We ensured that in our study the views from the trucking sector are fully expressed.

Freight Forwarders

Freight forwarders assist traders in movement of cargo to an international destination by arranging cargo space on a vessel, moving cargo from warehouses to ports, liaising with Customs, filing goods declaration, and dispatching shipments through shipping vessels, airplanes, trucks, or railroads. They have expertise that allows them to prepare and process documentation (commercial invoice, goods declaration etc.) and perform related activities pertaining to international shipments.¹⁴ During the course of this study we were able to acquire some important insights to pending impediments from the leading freight forwarders.

¹³ Trucking Policy: Ministry of Industries, Production & Special Initiatives, Government of Pakistan, 2008

¹⁴ Requirements analysis and proposed specifications for Pakistan Electronic Trade (PAKET) Network, National Trade and Transport Facilitation Committee, 2006

3. Review of Literature

In this section we discuss some key empirical findings which enable us to better understand the importance of trade facilitation across countries. We initiate with some global evidence and in the later part of this section, focus more on South Asia. John *et al.* (2003) analyzed the relationship between trade facilitation, trade flows and GDP per capita in the Asian-Pacific region for goods sectors. The indicators used for trade facilitations are port efficiency, customs environments, regulatory environment and electronic business usage. Using the gravity model the authors found that port efficiency has a positive impact on trade, and regulatory barriers deterred trade. The magnitude of the impact of the customs and greater electronic usage on trade flows are lesser than the effect of ports and regulation. The authors further showed that intra-APEC trade could increase by US\$ 254 billion even through minimal reforms. Furthermore, trade facilitation would increase the APEC average per capita GDP by 4.3%.

Calderon and Serven (2004) empirically evaluated the impact of infrastructure development on economic growth and income distribution. They used panel data of over 100 countries for the period 1960-2000. The two robust results showed that growth is positively affected by stock of infrastructure assets; and, secondly, income inequality declines with high infrastructure quality and quantity.

John *et al.* (2004) assessed the potential benefits of trade facilitation in four important categories: port efficiency, customs environment, regulatory environment and service sector infrastructure. A gravity model is used to assess the trade facilitation and trade flows for manufactured goods in 2001 for 75 countries. The estimation shows the total gains in trade flows in manufactured goods from improvements in trade facilitation in all four areas are around US\$ 377 billion. Most of the region gains more in exports than imports, and specifically increasing exports to OECD market.

Hausman *et al.* (2005) focused on logistic frictions in term of time, cost, and variability. The authors analyzed the global logistic indicators, supply chain metrics and bilateral trade patterns. The results based on augmented gravity model highlighted that these frictions relate directly to the level of bilateral trade. The results further suggested to both the public and private agencies, which have direct or indirect control over logistic performance of a country, to focus attention on reducing the logistic friction to improve country's ability to compete.

Jose *et al.* (2003) studied the role of pre-shipment inspection (PSI) in reducing the tariff evasion and customs corruption. Theoretically the introduction of PSI has an ambiguous effect on the level of customs fraud. The results of pooled least square estimation techniques suggest that PSI reduced fraud in Philippines and it increased in Argentina and did not have a significant impact on Indonesia.

Allen (2006) using the Global Trade Analysis Project (GTAP) model and data base computed both the intra-regional integration and integration of Middle East and North Africa (MENA) with EU. Trade facilitation is considered as technical progress in trading activities in GTAP and in Computable General Equilibrium (CGE) model. The results show that the welfare gains are twice from integration with EU than intra-regional integration. Furthermore, if regional trade agreements (RTAs) are complemented with trade facilitations the welfare gains would at least triple.

Isidro *et al.* (2006) used four indicators for trade facilitation: port efficiency, custom environment, regulatory environment and e-commerce uses by business as proxy for service sector infrastructure. The gravity model simulation results for the four categories for the Mexican economy show total trade flows in manufactured goods, which is estimated to be US\$ 348.2 billion or about 7.2% of the world trade. In the sector-wise analysis, the exports of textile depends more on port efficiency and

regulatory environment, transport and equipments relies more on port efficiency, and food and manufacturing depends only on the improvements in regulatory environments. The imports of transport equipments relatively more depends on improvements in service sector infrastructures. The trade facilitation reforms could generate in case of Mexico more than 20% increase in exports and about 11 % in imports.

Arvis *et al.* (2007) theoretically and empirically highlighted that large proportion of least developing countries are landlocked economies and their access to world economies depends on trade corridors and transit system. The results of this paper showed that landlocked economies are not only affected by freight services in term of cost but also by high unpredictability of transportation time. They further discussed the main source of cost not only the physical constraints but widespread rent seeking activities and severe flaws in the implementation of transit system.

Helble *et al.* (2007) considered transparency of the trading environment an important complement to reduction in tariff and non tariff barriers. The authors focused on two dimensions of transparency: namely, predictability (reducing the cost of uncertainty) and simplification (reducing information costs). The gravity model results for APEC member countries suggest improving trade related transparency in APEC could significantly raise intra-APEC trade by approximately US\$ 148 billion or 7.5% of baseline trade in the region.

Hoekman and Nicita (2008) reviewed new indices for trade restrictiveness and trade facilitation. In addition, they also compared the different type of trade restrictions applied at border with domestic policies that affect trade costs. The empirical analyses based on gravity regression framework suggest that tariff and non-tariff measures continue to be a significant source of trade restrictiveness for low income countries despite preferential access programs. The analysis further indicates that improving the logistic performance, trade facilitation and lowering border barriers by a factor of two or more is likely to have great positive impact on the developing countries trade.

Njinkeu *et al.* (2008) using Tobit regression examined the impact of trade facilitation on intra-Africa trade. The authors examined the trade facilitation reforms (increased port efficiency, improved customs and regulatory environment) and upgrading service sector infrastructure on trade between African countries. The results suggested that improvements in ports and service sector infrastructure increase relatively more intra African trade than other measures. Further, they examined that almost all regional trade agreements have a positive effect on trade flows.

Shepherd and Wilson (2008) reviewed the progress and indicators of trade facilitation in Association of Southeast Asian Nation (ASEAN) member countries. Using a standard gravity model, the authors found that trade flows in ASEAN are very sensitive to transport infrastructure, and information and communication technologies. The results further suggest that trade facilitation reforms would benefit these countries more than tariff reforms. Moreover, the results suggest that improving port facilities in the region could expand trade by 7.5% or US\$ 22 billion.

Perez and Wilson (2008) studied why trade facilitation matters to Africa? Using gravity model the authors computed ad-valorem equivalents of improvements in trade indicators. The results suggest that the gains from cutting trade costs half-way to the level of Mauritius have greater effects on African exports than a substantive cut in tariff barriers. Similarly, the improvement in logistics in Ethiopia to the level of half-way of Mauritius would be roughly equivalent to 7.6% cut in tariff faced by Ethiopia exporters across all importers.

Douglas (2008) reveals the role of international trade in Asia's economic growth. He emphasizes the role of infrastructure both hard and soft (governance is critical aspect of soft infrastructure). It played an important role in strengthening trade primarily by reducing the transaction cost. The author gives importance to soft infrastructure over physical infrastructure for increasing trade and its profitability, and equitable distribution of the income. Similarly, the authors conclude that regional cooperation in trade facilitation leads to economic integration. Finally, the virtuous circle between growth, infrastructure investment, trade expansion and regional integration is elucidated.

Susan (2008) stresses the importance of infrastructure development in sustained growth over the decade in the Asian region. Infrastructure development is one of the important competitive advantages on the other developing countries. Therefore, quarter of world export comes from East Asia. The author stresses the strong role of both the quality and quantity of infrastructure services within and across the Asian countries. Consequently, strong investment in infrastructure would facilitate achieving economic growth and ultimately contribute to poverty alleviation.

Douglas (2008) finds that the Asian economies are expected to become the fastest growing markets in the world. This growth would come from trade expansion, regional integration and broadening and deepening of international capital flows to support this trade expansion. Infrastructure services both hard and soft would lower transaction cost, raise value addition and increase potential profitability. Moreover, the logistic services are also required as economies move into complex and high value manufacturing.

Staples and Harris (2009) review the barriers imposed by the rules of origin and whether trade facilitation may reduce it. They consider trade facilitation both in its traditional sense e.g. custom procedure at border and also in the context of managing and administering at-border and behind the border. The authors consider trade facilitation fundamentally as an issue of information, and defining which party is responsible and liable for which element of information. So the need is to compile this information in such a way as to promote efficient production and reduce administrative cost. This process generates economies of scale for the firm and leads to consumer satisfaction.

Bhattacharyay *et al.* (2009) argue that lack of regional connectivity inhibits growth, and integration in Asia and with the rest of the world. The authors also highlighted the current physical infrastructure and non-physical soft infrastructure issues like cross border transit facilitation, custom clearance and other facilitating policies and regulatory measures. These issues require collaborative effort among the Asian economies, multilateral development banks, United Nation agencies, intergovernmental organizations etc. The authors conclude that the strength of the Asian countries lies in the restoration of the Silk Route which requires strong commitments.

Hoekman and Zarrouk (2009) empirically analyzed the Pan-Arab Free Trade Area agreement. They conducted firm level survey in nine countries regarding the implementation of Pan-Arab Free Trade Area. Majority of the respondents favoured the removal of the tariff on intra-regional trade and desired improvements in custom related procedures. The most important constraints associated to intraregional trade is administrative red tape and transport related infrastructure services.

Perez and Wilson (2010) estimated the impact of hard and soft indicators of infrastructure on export performance of 101 developing countries over a period 2004-2007. They further divided the hard infrastructure into two sub-categories: physical infrastructure and information and communication technologies. Similarly, they also further divided the soft infrastructure into two categories: border and transport efficiency and business and regulatory environment. The estimates showed that the trade facilitation reforms (investment in physical infrastructure and business and regulatory

environment) improve the export performance of developing countries. In contrast, the impact of Information Communication Technologies on export was increasingly important for richer countries.

De Prabir (2010) empirically analyzes the linkages between governance, institutions and regional infrastructure. The panel data estimation for a sample of 98 countries shows that governance and institutions are important for infrastructure development. One percentage point improvement in governance results in 1 to 1.5 percentage points rise in regional infrastructure. It means that countries with better governance, strong institutions, higher income and more open economies are likely to have higher level of regional infrastructure. Furthermore, the author stress on the policy reforms in number of areas.

Brooks and Stone (2010) empirically analyze the status and challenges to trade facilitation among the Asian and Asia Pacific Economic Cooperation members using Computable General Equilibrium (CGE) Model. The results show that the reduction in trade cost (trade facilitation measures) expands GDP and welfare in the sample region. In terms of GDP the biggest winner is Vietnam followed by Malaysia and Philippines. A 25% reduction in trade cost results in increase in welfare measured by equivalent variation ranging from \$1.25 billion in Philippines to \$12.4 billion in China.

Gilbert and Banik (2010) find that investment in land transportation infrastructure benefits all South Asia Sub regional Economic Cooperation (SASEC) countries. The largest absolute gain accrues to India followed by largest relative gain to Nepal. The effect on household level distribution is mixed. Scenario of potential adjustment cost suggests somewhat more significant impact for smaller economies in the region.¹⁵

Bhattacharyay (2010) studies effectiveness of institutions in Asian connectivity. He emphasizes that this effectiveness depends on the structure of hard and soft infrastructure of connectivity. The author presents the benefits like global production, trade, capital formation and productivity growth. The challenges like the geographical dimensions of the countries and financial resources etc are the main constraints facing the Asian countries in achieving smooth connectivity. The author concluded good governance is one of the major impediments to Asia connectivity. The paper also presents two new effective, formal and rule based institutional mechanisms namely Pan-Asian Infrastructure forum and Asian Infrastructure Fund for seamless Asia connectivity.

Banik and Gilbert (2008) reveal that the reasons for low value of inter-country regional trade within South Asian region are similarities in export profile and trade costs. They use augmented gravity model on a panel data for the period 1995-2006. The countries considered are Pakistan, India, Bangladesh, Nepal and Sri Lanka. The analysis shows that the following measures are needed to enhance trade flow in the region: granting of transit facilities, liberalizing trade and investment measures in services, transfer of fund from advance countries to poor countries, reducing the number of negative list and easing political differences. In addition the factors contributing to trade cost in this region are: lack of infrastructure both physical and services, government regulations, port inefficiencies, corruption in customs.

Wilson and Otsuki (2007) show that if countries in South Asia raise capacity building in trade facilitation around half of East Asian average; trade would rise by about \$2.6 billion. This is approximately 60% of total intra-regional trade in South Asia. If South Asia and the rest of the world

¹⁵ The authors use the multi country Computable General Equilibrium (CGE) Model with 16 production sectors and 47 regional households for South Asia covering India, Pakistan, Bangladesh, Sri Lanka and Nepal.

raise their level of trade facilitation halfway to the East Asian average the gain to the region would be \$36 billion.

The EIU (2005) reported e-readiness ranking and e-readiness score in 65 countries. The key areas of connectivity discussed were mobile penetration, internet use and personal computer (PC) use. The methodology used for e-readiness ranking were based on six main categories like connectivity and technology infrastructure, business environment, consumer and business adoption, legal and policy environment, social and cultural environment and finally supporting e- services. The Economist Intelligence Unit (EIU) for year 2009 ranked Pakistan at 64th and its e-readiness score was 2.93 out of 10. India was ranked at 49th and its e-readiness score was 4.17 of total 10 and Sri Lanka ranked at 56 and its e-readiness score was 3.8. No ranking is however available for Bangladesh and Afghanistan. The dismal progress in South Asian countries and especially in Pakistan and India in Information Communication Technologies (ICT) slows down growth in e-commerce. The ranks of South Asian countries had not improved much according to the 2009 statistics of Economists Intelligence Unit.

Douglas (2004) revealed that Pakistan’s import and export procedures are relatively cumbersome. The author criticizes the import policy due to its complexity, registration and documentations requirements, and the long list of required documents. Similarly, there is no known procedure for advance ruling. The author suggested the electronic assessment system and speeding up the custom clearance. He recommended that the rulings may be available in the Gazette and on the website.

4. State of Transport and Logistics Infrastructure

The Global Competitiveness Report 2010 ranked Pakistan 101 out of total 133 countries and its score was 3.58 out of 7. In terms of quality of overall infrastructure (quality of roads, quality of railroads, port infrastructure, air transport infrastructure, available seats kilometer, quality of electricity supply and telephone lines) Pakistan scored 3.06 out of 7 and ranked 89 out of 133 countries (not very different from India). Similarly, looking to the ranks of three components of goods market efficiency like prevalence of trade barriers, burden of customs procedures and tariff barriers – Pakistan remained 108, 88, and 105 respectively. India has improved ranking in prevalence of trade barriers, burden of custom procedures and tariff barriers e.g. 79, 71, 104 respectively (Table 1).

Table 1 Infrastructure Quality

	Quality of Overall Infrastructure	Quality of Roads	Quality of rail road infrastructure	Quality of port infrastructure	Quality of air transport infrastructure
Pakistan	87	65	51	73	76
Bangladesh	125	95	65	113	116
India	89	89	20	90	65
Sri Lanka	63	60	44	43	64
Nepal	130	126	109	119	107

Source: Global Competitiveness Report 2010

Doing Business in Pakistan (2010) ranked Pakistan 78th on the ease of trading across border out of 183 countries (Table 2). The trading across border measures the procedural requirements, associated time and cost required for exporting and importing cargo by sea transport. On average it takes 20 days to import and 22 days to export a container to/from Pakistan. Similarly, on average the cost to export

is US\$ 660 per container and cost to import is US\$ 870 per container. In addition, on average for Pakistani exporter 11 days are spent on paper work, inland transportation and handling takes 3.5 days, custom clearance and technical control takes 3 days and finally ports and terminal handling takes 4 days. The time needed to import has shown improvement. It reduced from 39 days in 2006 to 18 days in 2010. The import documents preparation takes 11 days, custom clearance and technical control takes 2 days, ports and terminal handling takes 3 days and inland transportation and handling takes 2 days. The trading across border data is limited only to the destinations of exports and imports to/from Pakistan and not specifically to Afghanistan and India.

Table 2 Trading Time and Procedures

	Trading across borders (ranked)	Document to exports (number)	Time to exports (Days)	Cost to export (US \$ per container)	Documents to imports (number)	Time to imports (Days)	Cost to import (US \$ per container)
Pakistan	78	9	22	611	8	18	680
Bangladesh	107	6	25	970	8	29	1375
India	94	8	17	945	9	20	960
Sri Lanka	65	8	21	715	6	20	745
Nepal	161	9	41	1764	10	35	1825
Bhutan	153	8	38	1210	11	38	2140

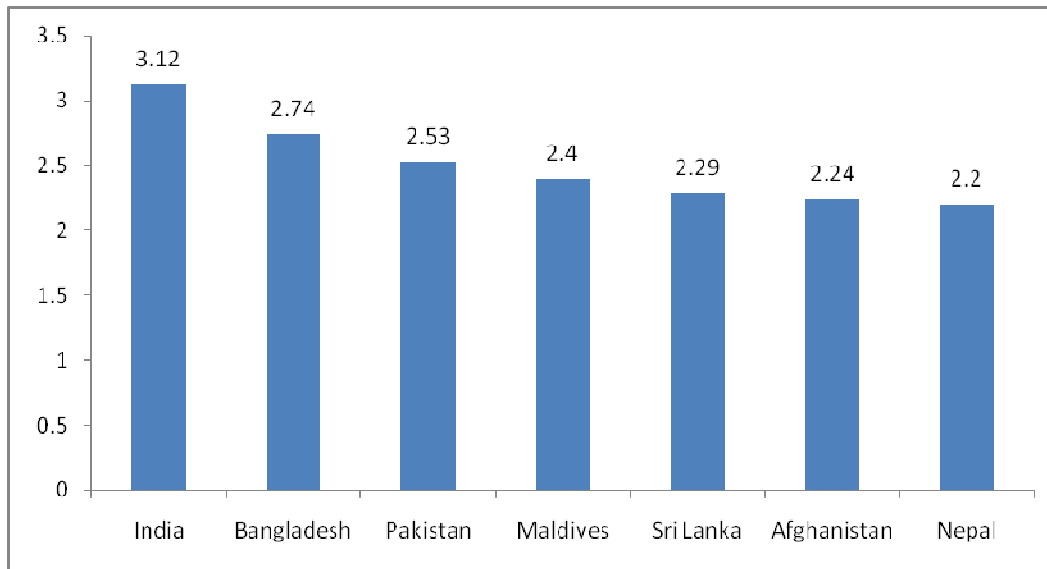
Source: Doing Business Report 2010, World Bank

To have a more holistic representation of e-governance, the United Nations conducted e-Government Survey 2008. This survey ranked the country e-governance performance on the basis of the performance of public and private sectors institutions and enterprises. It ranked Pakistan 136 out of 192 countries. Investment in Information Communication Technologies (ICTs) and related training of public sector employees would be required for improvement in e-governance. Similarly the Connectivity Scorecard (2010) is a global index which ranks countries in term of “useful connectivity” which covers the use of ICT to government, business and consumers. Pakistan achieved a score of 0.36 in government infrastructure against the highest of 0.85. Pakistan had a score of 0.32 in consumer infrastructure, against the highest of 0.93. Pakistan’s key weaknesses lie in business related infrastructure, where it scores significantly low at 0.02, against a top score of 0.72. This indicates extremely low investments in ICT, reflecting the wide gap between Pakistan and other best performing countries.

The World Bank Logistic Performance Index (LPI) 2010, which is interactive benchmarking tool to identify the challenges and opportunities countries face in the performance of trade logistics. Pakistan ranked at 110 out of 155 countries and its international LPI score is 2.53 (Figure 3). This score ranges from 1 to 5 with 1 being worst. Comparing the performance of South Asian countries, the overall Logistic Performance Index ranked high for India with index of 3.12, followed by Bangladesh with 2.74 and thirdly by Pakistan 2.53.¹⁶

¹⁶ The LPI is based on worldwide survey; it consists of both qualitative and quantitative measures. In addition, it measures logistic performance internationally and domestically. The international LPI qualitatively evaluates the country performance with its trade partners. Similarly, the domestic LPI both qualitatively and quantitatively evaluates the logistic performance within a country. The international LPI evaluates a country in six areas of its trading partners like efficiency of custom clearance process, quality of trade and transport infrastructure, ease of arranging shipments, logistic competence, tracking and tracing and timelines e.g. reaching the destination within the scheduled time.

Figure 3 Logistic Performance Index



Source: World Bank, Logistic Performance Index, 2010

We now provide a brief analysis on Pakistan’s state of infrastructure – the issues and challenges. We also discuss the key details of some reforms that are being envisaged in order to strengthen the trade facilitation and connectivity processes. Regulatory changes are of equal important. No trade facilitation regime is successful until and unless accompanied by an overarching shift towards openness in general (Box 1).

Box 1 Pakistan: New Directions in Trade Policy

The recently conducted study by Planning Commission of Pakistan on deepening openness in trade and achieving greater gains from a transparent trade policy regime highlights the following recommendations.¹⁷

Recommendations on policy

- Abolish the present Regulatory duties
- “Tops down” tariff cuts back to the 2002/03 maximum level of 25%
- Pre-announce further “tops down” tariff cuts to a general maximum of say 10%
- Immediate cuts (to a maximum of say 35%) in all auto sector (including motor cycle) tariffs, and pre-announcement of further tariff cuts and other basic changes to auto sector policies
- A review of the economic justification for other sectors/industries with above normal protection and/or subsidies
- A review of the economic justification for the present export subsidies
- Inclusion of a consumer/buyer interest clause in the anti-dumping law

Recommendations on information gaps and transparency

- Publication on the Federal Board of Revenue (FBR) website of a computable version of the detailed Customs tariff schedule
- Publication on the FBR website of a computable version of the detailed trade database
- Publication by NTC of its past tariff enquiry reports
- Publication by NTC of all future tariff enquiry reports *before* they are passed on to MOC
- MOC to provide publicly available reasons for adopting or not adopting the recommendations of NTC tariff enquiry reports
- Publication and easy access to information on appeals against anti-dumping decisions
- A review of the current situation in which tariff changes are being made without reference to NTC

Roads Sector

Pakistan’s road density is 0.32 km/km², which is much lower than the regional level.¹⁸ Road density is an important indicator of the level of infrastructure development of a country. South Asia is home to economies with varied road densities. For examples, India has road density of 1 km/km² and Afghanistan stands at 0.08 km/km². In developed economies Japan has highest road density of 3.07 km/km², UK has 1.62 km/km² and US has 0.65 km/km².¹⁹ In Table 3, the high type and low type length and the total length of the roads are given. The total road network covering 259,618 km includes 179,290 km of high type and 80, 328 km of low type roads. But we can observe from Table 3 that total percentage change in the length of roads is minimal and even turns negative in 2007-08. Almost 92% of the passenger traffic and 96% of the inland freight is carried by roads. A positive change in road network of almost 5% was seen in 1996-98. Up to 2007 the growth hardly touched 1% and declined to negative 1.3% in 2008.

The total public expenditure on roads is over Rs 30 billion per year, of which 65 per cent is spent on national highways. The National Highway and Motorway network comprises of around 3.65 percent of the total road network - carries 80 percent of Pakistan's total traffic. With the growing population

¹⁷ G. Pursell, New Directions on Trade Policies. Cabinet Policy Paper. Planning Commission, March 2011.

¹⁸ Pakistan Economic Survey, 2009-2010

¹⁹ National Highway Authority of Pakistan

and increasing business activities, road traffic – both passenger and freight – has been growing significantly. Approximately, it is accounting for 91 percent of national passenger traffic and 96 percent of freight.

National Highway Authority (NHA) of Pakistan is responsible for the operation and maintenance of roads network. The toll revenue from roads and highways is the lifeline for its operation and maintenance. However NHA and related government bodies are heavily involved in the construction of roads and keeping this sector regulated – in turn repelling the private sector investment this area.

Table 3 Road Sector in Pakistan 1997 - 2009

Year	High Type		Low Type		Total	
	Length (km)	% Change	Length (km)	% Change	Length (km)	% Change
1996-97	126117	6.5	103478	3.6	229595	5.2
1997-98	133462	5.8	107423	3.8	240885	4.9
1998-99	137352	2.9	110140	2.5	247484	2.7
1999-00	138200	0.6	105320	0	240340	0.3
2000-01	144652	4.7	102784	-4.4	249972	0.7
2001-02	148877	2.9	98943	-2.4	251661	0.7
2002-03	153255	2.9	97527	-3.7	252168	0.2
2003-04	158543	3.5	95373	-1.4	256070	1.5
2004-05	162841	2.7	91491	-2.2	258214	0.8
2005-06	167530	2.9	86370	-4.1	259021	0.3
2006-07	172827	3.2	84038	-2.8	259197	1.1
2007-08	175000	0.8	83140	-5.5	259038	-1.3
2008-09	177060	1.3	80328	-2.7	260200	0

Source: Economic Survey of Pakistan, 2009-2010

The road density (km of road per sq. km of land area) was 32 % in 2004 and increased to 33.78% in 2008²⁰. Pakistan is facing internal and external security threats due to its role as a front line state in the global war on terror. This coupled with geo-political frictions with India further complicate the access to international markets.

It is necessary to have a holistic and integrated approach of trade facilitation to reduce the cost of doing business. The trucking sector is an important element of trade facilitation environment. After consultations with some of the stakeholders in Ministry of Commerce, Planning Commission of

²⁰ Source: Tradingeconomics.com

Pakistan, Engineering Development Board (Ministry of Industries, Production) and Board of Investment the recommendations are in line with the proposed trucking policy, 2008.

- Trucking sector should be recognized as an industry. This would enable them to avail the fringe benefits of industry.
- Financing/Leasing should be made available to trucking sector: not being declared as an industry, this sector mostly obtains financing through informal practices. The Banks and leasing companies financing is not available for this sector. The few available financiers charge them high interest rate and demand short repayment period. This ultimately results in increase in freight charges.
- Insurance should be made available: the individual truck owners do not meet the requirements of insurance companies. Therefore this sector has been ignored for three main types of insurance: i) cargo insurance ii) vehicle insurance iii) personal insurance.
- Service efficiency should be improved: long delivery time is one of the major impediment to trade facilitation both internationally and across-borders. The delivery times from Karachi Port for upcountry movement is 3-4 days, which is twice the time taken in East Asian countries.
- Axle Load Management should be enforced: old vehicles are overloaded (up to 70% on the 2 and 3 axle trucks and up to 40% on 4, 5 and 6 Axle trucks) due to low freight rates and non-existence of the Motor Vehicle Examination (MVE) System, which damages the roads and causes accidents as well.
- Trans freight stations should be established on highways: The non-existence or very few Trans freight stations on highways is also hindering the trade facilitation. Vehicles traveling all the way from South of the country to North require a number of Trans freight stations. These stations should provide the support facilities like workshops, outlets of Motor Vehicle Examinations, Excise and Taxation Department (E&T), service stations, spare parts outlets and refreshment facilities.
- Weigh stations should be established on highways: Existing low number of weigh stations on the national highways is also impeding enforcement of vehicle load regulations. Trucking Policy (2008) reveals that there are 17 weigh stations on the national highways. The government is more concerned to increase the weigh stations by further 12 in numbers to facilitate the trade. Currently there is only one weigh station with type (1 SSWIM²¹) at Sust last town in Pakistan towards border with China. Similarly, there is also one weigh station with type 2 SSWIM at Pattoki, Lahore.

Rail Sector

Pakistan Railways network was laid more than 100 years ago in 1861. The total route kilometer is 7791km and track Kilometer is 8952 km. Pakistan Railways has advantage in mass scale traffic and logistics movement. With the changes in government priorities and the irregular budgetary diversions to roads and air networks the performance of railways has suffered. Its share in inland traffic has reduced from 41% to 10% for passenger and 73% to 4% for freight.²² From 1997 to 2009, the average percentage change of passenger traffic was 2.45% and the growth in freight was 1.58%. The July-March data for 2009-10 data shows that the percentage change for passenger traffic was -7.15 % and similarly, the change in freight for the same period was -13.2 % (Table 4). The

²¹ Slow Speed Weight-in-Motion

²² Source: Finance Division (2010), Economic Survey of Pakistan, 2009-2010. Government of Pakistan.

reason may be the changes in the consumer preferences, recession in the economy and internal security conditions which hindered cross-country railways operations. Furthermore the internal inefficiencies have implied a less than competitive environment which keeps fares high.

Table 4 Rail Sector in Pakistan

Year	Passenger Traffic (Million) Passenger Km		Freight Million Ton Km	
	Rail	% Change	Rail	% Change
1996-97	19114	1.1	4607	-9.3
1997-98	18774	-1.8	4447	-3.5
1998-99	18980	1.1	3967	-10.8
1999-00	18495	-2.6	3753	-5.4
2000-01	19590	5.9	4520	20.4
2001-02	20783	6.1	4573	1.2
2002-03	22306	7.3	4830	5.4
2003-04	23045	3.3	5336	10.7
2004-05	24238	5.2	5532	3.6
2005-06	25621	5.7	5916	6.9
2006-07	26446	3.2	5453	-7.8
2007-08	24731	-6.5	6178	13.3
2008-09	25702	3.95	5896	-4.10
2009-10(Jul-March)	18270	-7.15	3925	-13.2

Source: Economic Survey of Pakistan, 2009-2010

The historical data showed that in 1980s the total rail lines were 8817 route-km and now decreased to 7791 in 2008. The total rail lines are the length of the railway routes available for train services, irrespective of the number of parallel tracks.²³ Similarly, the goods transported by the railways were 6187 million ton-km in 2008. If we look into the historical data of Pakistan railways, goods transported showed that in 1980 it was 7918 million ton-km and decreased to 5709 million ton-km in 1990s. The historic minimum was 3754 million ton-km in 2000 and after which it started increasing and reached to the level of 6178 million ton-km in 2008²⁴.

Pakistan Railways has been keen to double the track but the major hurdle is financial resources and heavily regulated supply chain hindering private sector involvement. Although, one of the projects e.g. doubling of track from Lodhran to Khanewal via Multan (121 kms) has so far been completed.

²³ Source: Tradingeconomics.com

²⁴ Source: Tradingeconomics.com

Work on the doubling of track on Khanewal-Raiwind routes (246 kms) is in progress from Sahiwal to Raiwind (Lahore).

The proposed new rail links include:²⁵

a. Gwadar rail link with existing network

A new port at Gwadar has been developed. The success of the Gwadar port is also linked with attracting the traffic from the land locked Central Asian republics, which are presently dependant upon Iran. The proposed project would connect Gwadar with the existing Quetta-Taftan rail link which is further linked with Iran through Zahidan. It is proposed to develop the railway link with Central Asia via Chaman-Kundhar-Hirat-Khushka.

There is another proposal to construct a railway line from Havelian through Khunjrab to China. After the completion of proposed Havelian- Khunjrab (China) link, this port can even serve the imports and exports for China. It is expected that for China such an arrangement will save 7000 miles and 3 – 4 trading days. However, construction of this railway line is expected to take a long time. After development of these projects Gwadar Port could herald a new epoch of economic prosperity and friendship between Pakistan, Iran, Central Asian Republics and China.

The above projects have been conceived to develop Gwadar Port as a "mother hub" that would provide the required strength and economic boost to the future projects in Balochistan province in particular and Pakistan in general.

b. Rail link from Chaman to Spin Boldak

On the directive of Ministry of Railways, rail link from Chaman (Pakistan) to Spin Boldak (Afghanistan) for the total distance 11.5 km was to be constructed during 2004. The work however could not be commenced. The revised project proposal was submitted in 2009. The execution of work was awarded to M/s Railcop, but could not be executed due to non-provision of no objection certificate from the Government of Afghanistan which is still awaited. The project will be started on receipt of NOC from the Government of Afghanistan and after sanction of revised project proposal.

There is a long term project for connecting railway from Chaman to Kandahar in Afghanistan and then further to Kushka in Afghanistan.²⁶ However, its implementation depends upon security situation in Afghanistan, availability of finance and agreement of Government of Afghanistan. Table 5 provides the breakup of distances of the proposed railway line from Gwadar port to Kushka in Turkmenistan.

Table 5 Breakup of distances between Gwadar and Kushka (Turkmenistan)

Countries	Routes	Existing Track	New Track (Km)	Total (Km)
Pakistan	Gwadar to Mastung (proposed route)	0	901	901
	Mastung to Chaman	190	0	190
	Chaman to Pak-Afghan Border	0	1	15

²⁵ Year book of Pakistan Railway, 2008-09

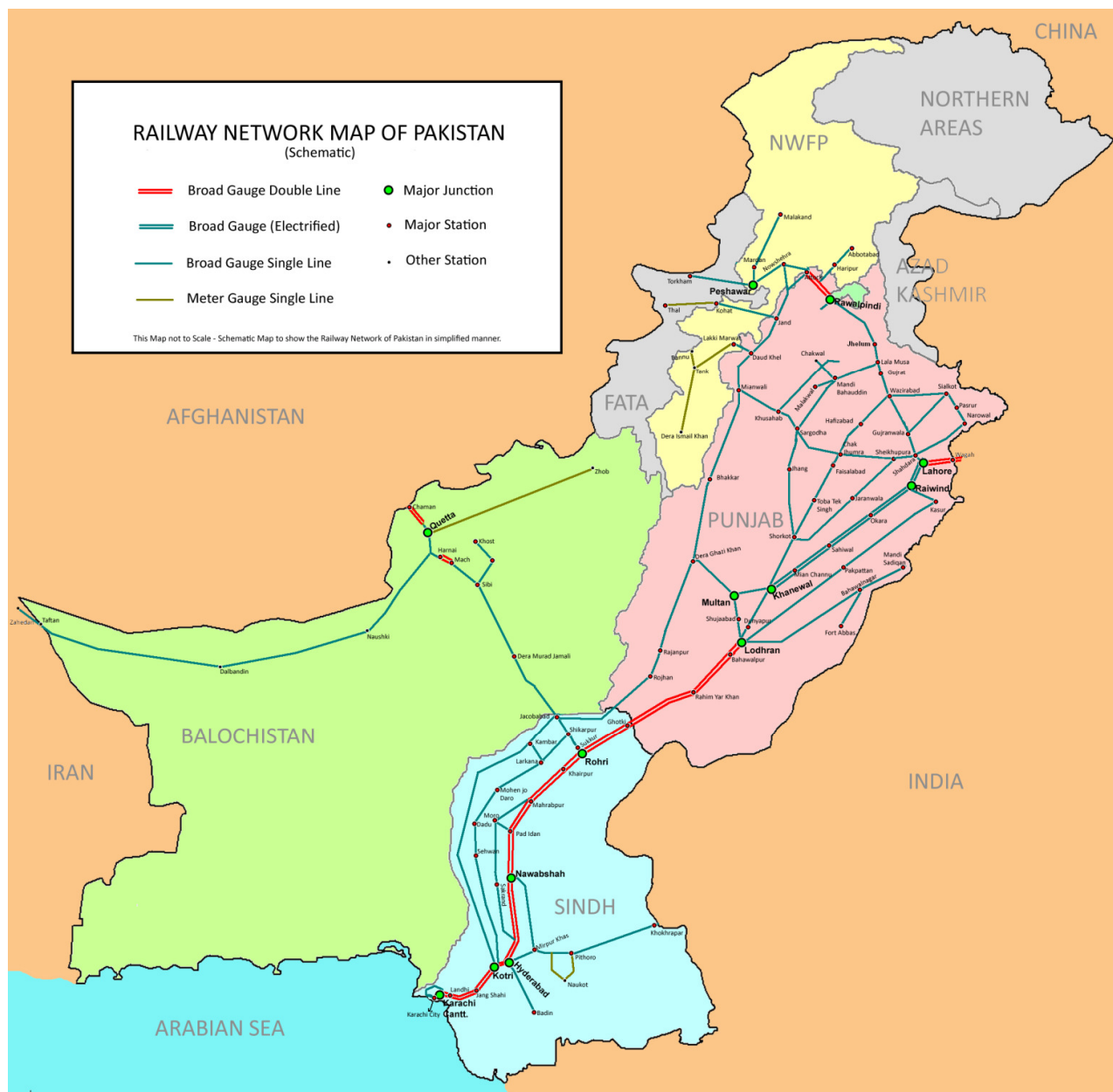
²⁶ Year book of Pakistan Railway, 2008-09

Afghanistan	Pak-Afghan Border to Kandhar	0	97	97
	Kandahar to Heart	0	535	535
	Herat to Afghan-Turkmenistan Border	0	98	98
Turkmenistan	Afghan-Turkmenistan Border to Kushka (border city to Turkmenistan)	0	12	12
	Total	190	1658	1848

The efficiency of the rail transport has to be improved to compete with the truck transport to/from the ports. Due to present inefficiencies in the rail sector and longer time taken by railways to deliver, most exporters prefer truck-based transport in spite of cost disadvantages.²⁷

²⁷ Pakistan Logistic Cost Study, 2006

Figure 4 Pakistan Railway Network



Source: NTCIP

Despite of a large network (Figure 4) the productivity of Pakistan Railways (PR) freight services is about 1/8 of Chinese Railways, 1/3 of Indian Railways, and half of Thai Railways. PR cross-subsidized passenger services from freight services, resulting in non-competitive freight rates compared to road transport. Continuous increase in railway fares to overcome the financial losses, corruption in procurement and other operational inefficiencies in turn are putting consumer interests away from Railways. It is no longer considered an economical mode of transport. In contrast, China rail for example is 2-3 times cheaper than road. As a result, the PR has a very low and stagnant market share, carrying less than 10 percent of passenger traffic and 5 percent of freight.

Civil Aviation

The Pakistan Civil Aviation Authority (CAA) is managing the airport services in Pakistan (Figure 5). The new airports being constructed include: Benazir Bhutto International Airport, Islamabad, and New Gwadar International Airport; up gradation of Multan International Airport, and expansion of Peshawar International Airport. The Karachi International Airport has the largest commercial total (domestic and international) aircraft movements of 43,014 in numbers in 2008-09. Karachi has also the highest value in total cargo movements of 145,052 million tons, followed by Lahore at 75,965 million tons and Islamabad at 51,557 million tons.

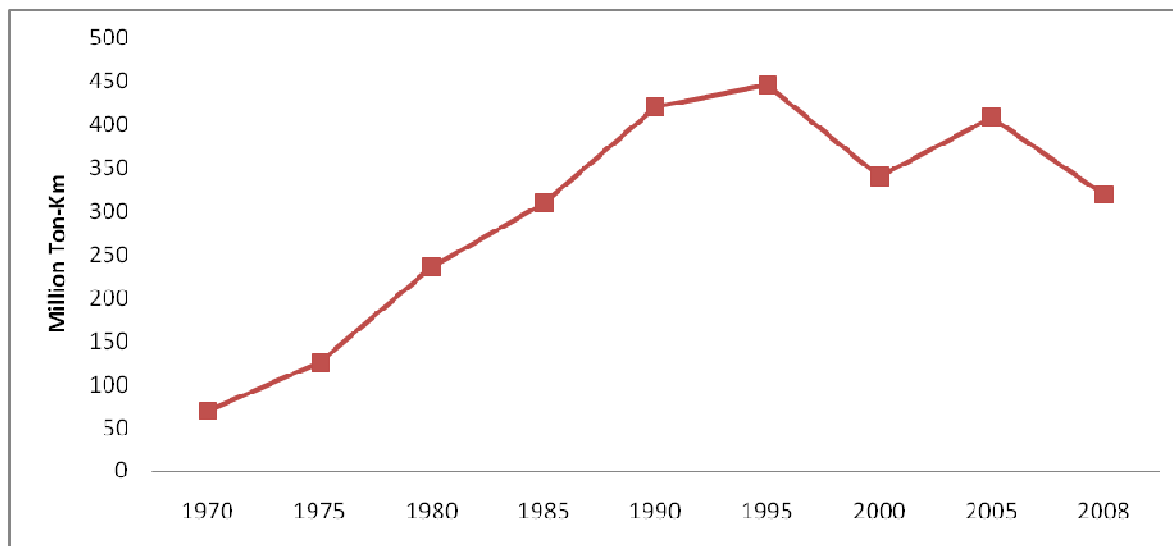
Figure 5 Pakistan Aviation Sector



Source:NTCIP

The historical data of Pakistan air transport freight (million ton-km) has been exhibited in Figure 6. It was recorded at maximum of 445.5 million ton-km in 1995 and declined to the level of 340.1 million ton-km in 2000. Some of the reasons behind this gradual decline include: worsening of security climate, higher premium charged by insurance companies, an inability on part of CAA to boost marketing for increased traffic and a heavily regulated aviation sector prohibiting the growth of private carriers. After 2000 air freight showed increase and touched 407.3 million in 2005. However it again decreased to around 319.8 million ton-km in 2008.

Figure 6 Air Freight in Pakistan



Source: Tradingeconomics.com

The total passengers carried by aviation sector in Pakistan were 5,605,758 in 2008. Air passengers carried included both domestic and international aircraft registered in Pakistan. Comparatively in 2001 the figure was 6,011,849. The reasons for the decline may be Pakistan's pro-active stance on war on terror; reduction in calls by foreign airlines; and financial crisis which decreased the purchasing power and curtailed the demand worldwide, especially in Persian Gulf. Air transport registered around 52165 takeoffs (domestic and foreign) in 2008. The highest recorded in Pakistan history was 70300 in 1993.

Ports and Shipping

The Karachi Port Trust (KPT) has substantial contribution in the national economy. The KPT handled 38.73 million tons cargo in 2008-09 (Table 6), which is the highest in the last decade. The export cargo is around 35% and import cargo stands at 65%.

Table 6 Cargo Handled at Karachi Port (000 Ton)

Year	Imports	% Change	Exports	% Change	Total	% Change
1996-97	18362	-1.9	5113	5.2	23475	-0.4
1997-98	17114	-6.8	5570	8.9	22684	-3.4
1998-99	18318	7.0	5735	3.0	24053	6.0
1999-00	17149	-6.4	5613	-2.1	22762	-5.4
2000-01	20064	17.0	5918	5.4	25982	14.1
2001-02	20330	1.3	6362	7.5	26692	2.7
2002-03	19609	-3.5	6273	-1.4	25882	-3.0
2003-04	21732	10.8	6081	-3.1	27813	7.5
2004-05	22100	1.7	6515	7.1	28615	2.9
2005-06	25573	15.7	6697	2.8	32270	12.8
2006-07	23329	-8.8	7517	12.2	30846	-4.4
2007-08	25517	9.4	11676	55.3	37193	20.6
2008-09	25367	-0.6	13365	14.5	38732	4.1
2009-10(Jul-March)	14009		6536		20545	

Source: Economic Survey of Pakistan, 2009-2010

A disaggregated cargo position at KPT is exhibited in Table 7. The imports of the total general cargo which is the sum of the containers (TEUs), containers (TONs) and general cargo is 17807 and exports are 22889. The total general cargo trade is 3583. The export of the sum of the total general cargo is 28% more than its imports which is sum of total general cargo. By including the bulk cargo the total dry cargo imports become 27,269 and its exports are 26,107 and total dry cargo trade reached around 53376. Now with inclusion of the bulk cargo the total dry cargo imports increased by 4.45% than its total dry cargo exports. Moreover, inclusion of liquid cargo the grand total cargo imports equals to 62,739 and exports equals to 26,907 and total trade becomes 89,646. In nutshell, the imports of the cargo handling at KPT are more than 100% of exports of cargo handling at KPT.

Table 7 State of Cargo Handling

CARGO TYPES	IMPORTS	EXPORT	TOTAL
Containers (TEUs)	1352	2231	3583
Containers (TONS)	17678	20954	38632
General Cargo	129	1935	2064
Sub Total Gen, Cargo	17807	22889	40696
Bulk Cargo	9462	3218	12680
Total Dry Cargo	27269	26107	53376
Liquid Cargo	35470	800	36270
Total	62,739	26,907	89,646

Source: Ministry of Port and Shipping, 2011

Pakistan National Shipping Corporation (PNSC)

Pakistan National Shipping Corporation is the state-owned shipping carrier with the largest market share. The PNSC at present manages 10 vessels with a total capacity of 565,273 dead weight tons (DWT). The government has tried to deregulate this sector and private sector is now allowed to operate vessels. However, at present no private sector shipping company is operating in Pakistan.

PNSC operates three combi type general cargo vessels on the following routes:²⁸

(i) Trade Area West: Calls at Karachi, Dubai, Dammam, Abu Dhabi, Kuwait, Bander Abbas, Genoa, Marseilles, Bremen, Antwerp, Tarragona, Casablanca, East/West Africa and Brazilian ports. Other ports are also called subject to inducement.

(ii) Trade Area East: Calls at Karachi, Colombo, Singapore, Xingang, Shanghai, Yokohama, Osaka, Busan.

PNSC operates three AFRAMAX tankers on regional routes and three bulk carriers.

Gwadar Port

Gwadar port is the third port of Pakistan after Karachi and Port Qasim. It is about 533 km from Karachi and 120 km from Iranian border. Gwadar port started its ship handling operations in March 2008. Full operation of Gwadar port requires completion of road linkages, provision of electricity, and other utility services. The completion of the N-85 road linking Gwadar with Rathodero would make the port operation for transit trade and domestic commerce. There is a need to allocate further land for free trade zone and for establishing port related industries and production of base cargo in this area.

When fully operational Gwadar port could act as a catalyst for number of projects like:²⁹

- Trans-Shipment of Bulk Cargo
- Oil storage, refinery and petrochemicals
- Export processing and industrial zones
- Export of minerals and livestock
- Services (Hotels, accommodation, tourism)

²⁸ Source: www.pnsc.com.pk

²⁹ Source: www.gwadarport.gov.pk

Several Chinese companies have also shown interest in the development of this port. Currently the exports of the western region in China have to travel to Shanghai before being dispatched to African and European markets. However, with the establishment of proper road and rail linkages with Gwadar port, China could use the road link from Khunjrab pass in north leading to Balochistan province and Gwadar.

Port Qasim Authority

The Port Qasim handled 25.03 million tons of cargo in 2008-09. This included 19.45 of import cargo and 5.59 of export cargo. The current port capacity with eleven berths is 40 million tones annually. According to an estimate the Port Qasim caters for around 40% of the shipping requirements of national economy³⁰. The average growth rate of the total cargo handled since 2005 is 13%. The volume of total cargo declined by 5% in 2008-09 whereas the percentage of imports declined by 10% and exports increased by 16% (Table 9).

Table 9 Performance of Port Qasim (1998 – 2010)

Year	Cargo Handled at Port Qasim (000 Ton)					
	Imports	% Change	Exports	% Change	Total	% Change
1997-98	13823	39	1144	65	14967	41
1998-99	12191	-12	1742	52	13933	-7.0
1999-00	13238	09	1703	-2.0	14941	7.0
2000-01	11841	-11	1747	3.0	13588	-11
2001-02	10932	-8	2385	36	13377	-2.0
2002-03	11980	10	3129	31	15109	13
2003-04	11264	-6	2859	-9.0	14123	-7.0
2004-05	16006	42	3431	20	19437	37
2005-06	17588	10	3985	16	21573	11
2006-07	19511	11	4839	21	24350	13
2007-08	21502	10	4922	02	26424	09
200809	19445	-10	5584	16	25030	-5.0
2009-10(Jul-March)	13383		5448		18831	

Source: Economic Survey of Pakistan, 2009-2010

³⁰ Source: Economic Survey of Pakistan, 2009-2010

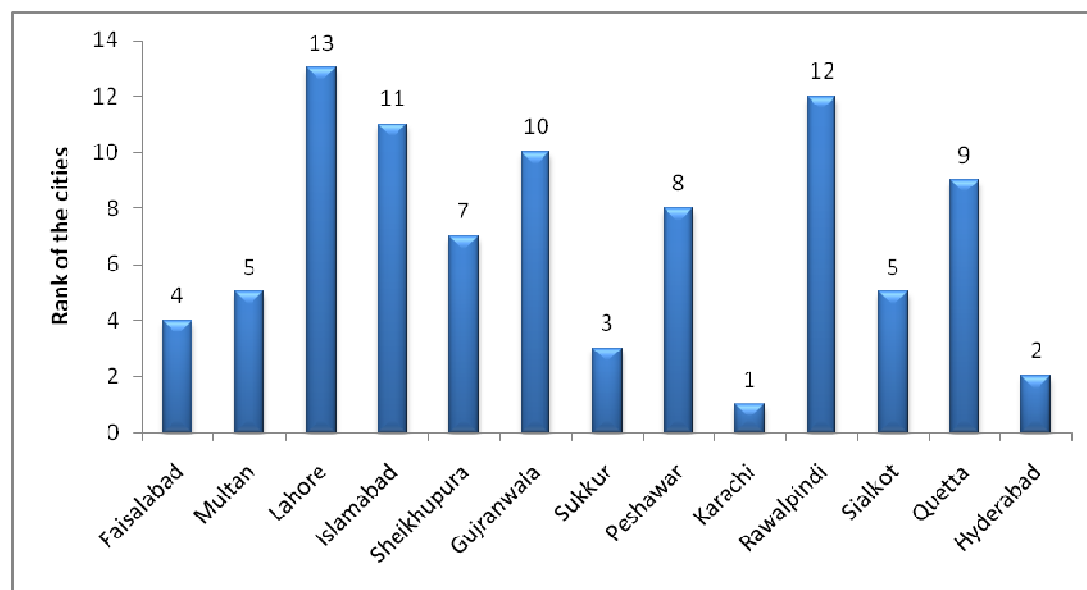
Looking into the competitiveness environment and logistic challenges, Pakistan's position is worsening compared to the other regional economies. The high cost and poorly functioning infrastructure for road and rail transport and high port handling costs in Karachi and Port Qasim are reported to hinder the country's trade potential.³¹

Trading Across Borders

Explaining and positioning the trade potential of Pakistan, the Doing Business report ranked 13 main industrial cities of Pakistan which are given in Figure 7. Karachi is the hub of industrial activities and with KPT and Port Qasim operating from this city, Karachi has been ranked first followed by Hyderabad and Sukkur at second and third respectively. Hyderabad and Sukkur amongst big cities are also the nearest to Karachi. Surprisingly Lahore ranks last. The main reason for Lahore being ranked last is the number of day its take to import and export a container to/from Lahore and cost of container to import and export to/from Lahore are higher as compared to other cities.³²

Lahore (Punjab) borders India and Peshawar (Khyber-Pukhtoonkhawa formally NWFP) borders Afghanistan. Both cities are ranked low. The number of days a container takes to import and export to/from Peshawar are 20 and 22 respectively same with number of days a container takes to import and export to/from Lahore with only difference of cost of container it takes to import and export to/from Peshawar. From Peshawar it takes \$784 per container to import and \$ 715 per container to export. Similarly, from Lahore it takes \$ 1088 per container to import and \$ 791 per container to export.

Figure 7 Ranking Pakistani Cities in terms of Trading Across Borders



Source: Doing Businesses in Pakistan, 2010

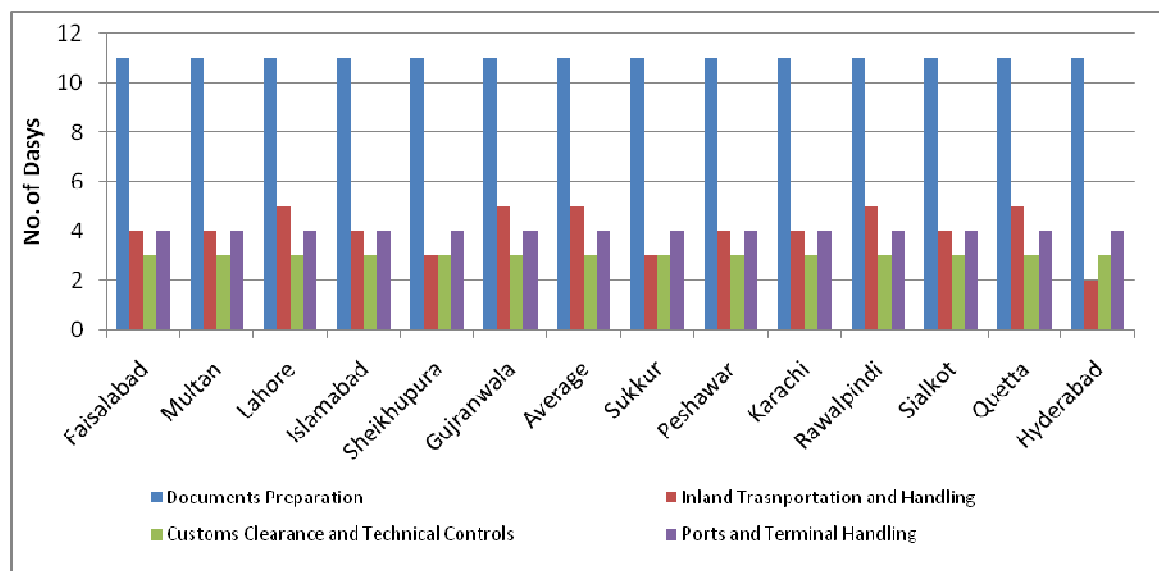
³¹ Pakistan Logistic Cost Study, 2006

³² However the poor ranking of Lahore is not accepted in some academic circles which consider it better positioned and with relatively better connectivity.

The cost of importing a container in Lahore is 38 % more than Peshawar. Similarly, the cost of exporting a container is 0.9 % more in Lahore than Peshawar. Some government functionaries have also expressed the opinion that the assessment showing Lahore's cost higher than Peshawar may not be correct.³³

³³ Our focal group discussions with Ministry of Commerce and Trade Development Authority of Pakistan.

Figure 8 Exporters Spent Most of Their Time on Paper Work



Source: Doing Businesses in Pakistan, 2010

Pakistan has shown slight decline in exports facilitation since 2006, the number of documents required increased to 9 in 2010 (Table 8). The cost in terms of exports shows improvement, the cost per container decreased to US \$ 611 in 2010 from US \$ 966. Furthermore, the time taken in days also decreased from 33 in 2006 to 24 in 2009 and 22 in 2010. However with in Pakistan, exporters still spend a considerable proportion of their time on paper work (Figure 8). Similarly, the number of documents required to import has decreased since 2006 from 12 to 8 in 2009 and remain same for 2010 (Table 9). The cost per container is gradually increasing from US \$ 317 in 2006 to US \$ 611 in 2009 and reached US \$ 680 in 2010. The time taken in days while importing a container decreased from 39 days in 2006 to 18 days in 2010.³⁴ Singapore the best performer requires 4 documents, 5 days and US \$ 456 to complete all export requirements.

Table 8 Trading Across Borders: Exports

Exports	Pakistan 2010	Pakistan 2009	Pakistan 2006
No. of Documents	9	9	8
Cost US \$	611	611	966
Time Taken (Days)	22	24	33

Source: Doing Business, World Bank 2010

³⁴ Doing business in Pakistan, 2010

Table 9 Trading Across Borders: Imports

Imports	Pakistan 2010	Pakistan 2009	Pakistan 2006
No. of Documents	8	8	12
Cost US \$	680	611	317
Time Taken (Days)	18	18	39

Source: Doing Business, World Bank 2010

Importing a container in 2010 through Karachi port required 8 documents, 18 days and costs \$ 680. The rest of the South Asia averaged 9 documents and 32 days to clear all the importing requirements, and costs on average \$ 1509. In Malaysia the same processes require 7 documents, 14 days to complete and costs \$450.³⁵

Pakistan Logistics Cost

Table 10 exhibits Pakistan's logistics costs in detail. In 2006, when Pakistan Logistic Cost study was carried out, the ocean freight was costing Pakistan about 1.86% of its foreign trade account. The ocean freight for the imports shipments was lower than the ocean freight for the exports shipments, due to higher value of imported goods and surplus empty containers in Europe which resulted in very competitive freight rates for full container load (FCL) and less than container load (LCL).

For the 10 shipments studied, the average insurance cost was about 0.47% of their final value and amounted to about US \$ 166.06 million. The domestic land transport costs account for 1.57 % of final value which is high compared with regional economies. This cost based analysis suggests that there is room for further improvement. The study suggested that there was need to reduce the inland transportation cost, port charges, ocean freight, freight forwarding cost and financial cost to become regionally competitive. The most significant change as compared to the 1996 Pakistan Logistic Cost study was the reduction in the imports custom duties and its value came down to 4.81 % in 2006 as compared to 45.29 % in 1996.³⁶

³⁵ Doing business in Pakistan, 2010

³⁶ Pakistan Logistic Cost Study, 2006

Table 10 Pakistan Logistic Costs

Cost Factor Shipment/cases 1 to 10	Average cost of final value % Shipment/cases 1 to 10	2004-05		Cost factor value and % share in 2004-05 foreign trade		
		Imports Factor (NFS) (US \$ Million)	+Non Surcharge (US \$ Million)	Exports Factor (NFS) (US \$ Million)	+Non Surcharge	US \$ Million
Ocean Freight						
Imports	0.687	20.623			141.68	0.69
Exports	3.537			14.411	509.72	3.54
Total					651.40	1.86
Insurance	0.474	20.623		14.411	166.06	0.47
Port Charges (includes storage and demurrage)	0.23	20.623		14.411	80.58	0.23
Freight forwarding (includes customs clearance and handling)	0.516	20.623		14.411	180.78	0.52
Custom duties and taxes						
Imports	4.805	20.623			990.94	4.81
Exports	0.221			14.411	31.85	0.22
Total					1022.78	2.92
Land transport (domestic)	1.571	20.623		14.411	550.38	1.57
Financial cost (inventory +immobilizations)	0.759	20.623		14.411	265.91	0.76
Total “non-factor-services” and duties share (2004-05 foreign service)					2917.89	8.33
Non-factor services-transport & insurance					1895.10	5.41
Duties and taxes					1022.78	2.92

Source: Pakistan Logistics Cost Study, 2006

The potential savings mentioned by the Pakistan Logistic Cost Study in four different categories of insurance, inland transport, freight forwarding and financial cost were around 1.34% of Pakistan foreign trade and non factor services which was equivalent to US \$ 469.5 million. The disaggregated calculations indicated that insurance could save \$ 66.6 million by pooling insurance activities; inland transport could save \$ 241.7 million by better utilization of existing capacity along with streamlining of procedures; and the freight forwarding could save \$ 42 million by combination of better utilization of resources along with enhancement of human resource training. Finally, the better improvement in inventory control, handling and transport immobilization efficiently would save about \$ 119.1 million.

Pakistan Trade Corridors

The Planning Commission of Pakistan has repeatedly advised on the reduction in transport costs, enhancing affordability, establishing an efficient and well integrated transport system, ensure safety in mobility and enhance regional connectivity. The above measures would improve the Pakistan trade competitiveness internationally and would enhance Pakistan share of world trade by 0.2% and Pakistan exports from US \$ 17 billion to between US \$ 250-300 billion by 2030.³⁷

The major initiatives taken by Pakistan is to improve the trade and transport logistic chain linking major ports in the south and south-west with its main industrial centers and neighboring countries in the north, north-west, east and west. The ports, roads, and railways along with NTC handle almost 95% of external trade, and 65% of total land freight serving the regions of the country, which is about 85% of GDP³⁸.

Pakistan National Trade Corridor (NTC) map clearly shows the transit routes of Pakistan and its major trade corridors (. The possible transit routes under this program are: China (North), Afghanistan (East) eventually linking with the other land locked energy rich Central Asian states like Tajikistan, Kyrgyzstan, Uzbekistan, Kazakhstan and Turkmenistan. Iran (South) could provide access to Turkey and energy supplies from Middle East. India (East) would link with booming East Asia.

³⁷ Vision 2030, Planning Commission of Pakistan (2007)

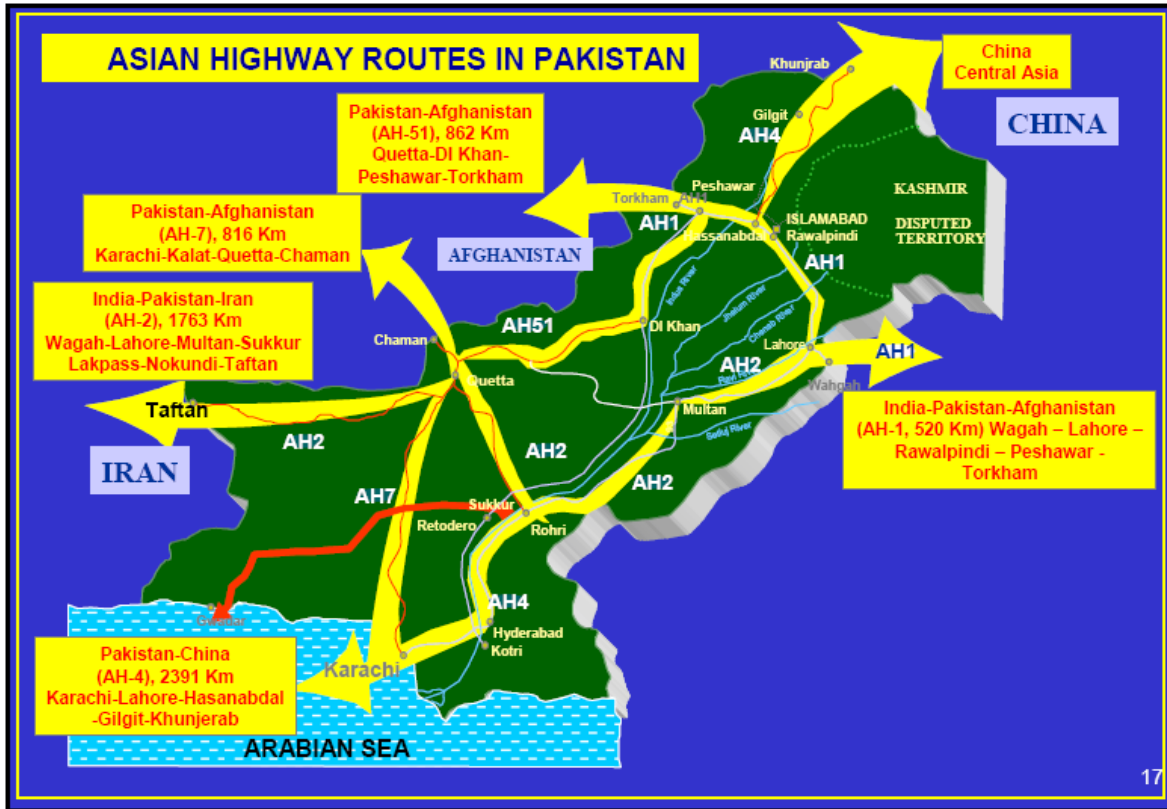
³⁸ IBRD, Report No: AB2619, Trade and Transport Facilitation Project-II (TTFP II)



At present total land trade demand is 132 billion ton-km. Total projected trade on NTC by 2012 is 160 billion ton-km. The North South Trade Corridor which start from Karachi (Sindh) and going through Hyderabad (Sindh), Lahore (Punjab), Islamabad, Mansehra has capacity of 136 billion ton-km and contributes 80% of the total land trade.³⁹ NTC would save annually \$1.3 billion from trade facilitation and \$2 billion from highway modernization. Competitive railways could save \$ 1 billion and efficient ports could save \$450 million annually.⁴⁰

³⁹ Shah A Asad , CAREC Senior Officials Meeting, Manila 8-9 Sept, 2007

⁴⁰ <http://www.brecorder.com/index.php?id=86>



The following recommendations (in line with the identified Asian Highway routes) have been given by the NTC program:

- Operationalization of the ECO Transit Trade Framework Agreement
- Implementation of the Pakistan-China-Kyrgyzstan-Kazakhstan quadrilateral transit agreement.
- Construction of rail-link between Chaman-Spin Boldak-Kandahar-Kushka
- Construction of rail-link between Havelian-Khunjerab to Pakistan-China border
- Multi-agency border stations at Jamrod, Chaman, Taftan and Wagha

Four Customs stations along Pakistan-Iran are already operational. Three border customs stations are also operational along with Pakistan-Afghan for facilitating transit trade through Pakistan via Afghanistan and connect with Central Asian States.

Pakistan's Trade with India

Pakistan's significant sectoral export potential with India has now been extensively studied in the literature.⁴¹ The sectors with potential scope of increased trading activity include: (i) textiles, clothing, and leather products, (ii) food, beverages and tobacco, and (iii) chemicals and chemical products⁴². The trade potential between these two countries is largely restricted by high level of imports protection against each other, and the nature of political relationship. Pakistan is a net-importer country vis-à-vis India (Table 11). The total trade volume was \$ 1,358 million in 2009. The highest

⁴¹ De Prabir (2009), Global and Economic and Financial Crisis: India Trade Potential and Future Prospects, ARTNet Working Paper Series No. 64

⁴² Tanija Nisha (2006), India-Pakistan Trade, Working Paper No. 182

trade volume in recent past was recorded in 2008; when total trade volume was \$ 2,046 million including exports (of India) \$ 1,691 million and imports (from India) \$ 354.6 million. These are respectively 82% and 18% of total trade volume.

Table 11. Pakistan Trade with India (US \$ Million)

Year	Exports	Imports	Total
2005	337.2	576.7	913.9
2006	326.7	1115.0	1441.7
2007	291.7	1266.2	1557.9
2008	354.6	1691.4	2046
2009	235.3	1080.4	1315.7

Source: UNCOMTRADE

The share of the total trade, measured by the sum of the bilateral exports between Pakistan and India, amounts to 0.9% of the total exports from India and Pakistan. The trade potential of these two countries is estimated at US\$ 5.2 billion.

Akbar Zaidi has explained Indo-Pakistan trade using data compiled by Rajesh Chadha and Devender Pratap. Share of India in total exports to South Asia was between 2.7 - 5.1% and the share of exports to Pakistan ranged between 0.2-0.4% in 2003⁴³. Similarly, the share of India in total imports from South Asia was between 0.4 - 0.8%, and the share of India in total imports from Pakistan was between 0.2-0.6 % in 2003. Moreover, the share of Pakistan in total exports to South Asian was between 2.6-4.9%, and to that of India was between 0.4-2.4% in 2003. Similarly, the share of Pakistan total imports from South Asia was between 0.4-1.7% and share of Pakistan's imports from India was between 0.2-0.6% in 2003. The data for these estimates ranged between 1990-2000⁴⁴.

The official trade through by road and rail takes place through Wagha border crossing near Lahore. The cargo exported by Pakistan is transported by Pakistan Railway up to Amritsar in India. From there onwards it is transported by Indian railway or trucks. Similarly the Indian cargo exported to Pakistan by rail is transported up to Lahore by Indian railway Table 12 provides details on potential trade routes between India and Pakistan. There is a need on both sides to lessen the delay times seen for rail, road and sea routes. From the Indian side, maximum time is taken for Delhi-Mumbai-Karachi route which is 16 days. The least time is taken for Mumbai-Karachi route which is 8.5 days.

⁴³ India-Pakistan Trade (2008), South Asia Policy Network (SAPANA): South Asian Studies Vol: II Trade, Tariff and Customs in South Asia

⁴⁴ Zaidi A S, (2006) India-Pakistan Trade, South Asian Studies Vol: II,

Table 12 Pakistan-India Trade Routes

Route	Mode	Transportation time (days)	Delay (days)	Total time (days)
Delhi-Attari	Rail	1	12	13
Delhi-Attari	Road-Rail	1	12	13
Mumbai-Karachi	Sea	1.5	7	8.5
Mumbai-Dubai-Karachi	Sea	6	7	13
Delhi-Mumbai-Karachi	Rail-Sea	4	8	12
Delhi-Mumbai-Karachi	Road-Sea	6	10	16

Source: India-Pakistan Trade, Working Paper No. 182, Nisha Taneja, 2006

Our work with the Planning Commission also advocates untapped trade potential with India.⁴⁵ Upon its creation as state in 1947, 70 percent of Pakistan’s trade happened with India, while 63 percent of Indian export went to Pakistan. In the late 2000s, however, India barely represents around 3 percent of Pakistan’s global trade. Given the proximity of the two countries and their historical and cultural similarities, such amount of trade is insignificant and well below potential.

Constraints on their bilateral economic integration are multiple.⁴⁶ They include high tariff and nontariff barriers, inadequate infrastructure, bureaucratic inertia, excessive red tape, and direct political opposition. Pakistan has not yet reciprocated most favored nation (MFN) status to India and maintains a fairly narrow positive list on goods that India may export to Pakistan. In addition, poor transportation linkages make trade costly, with railway and road connections inadequate and sea shipments constrained by both limited port facilities and bureaucratic regulations and land transit of Indian trucks (to Afghanistan) restrictions. Moreover, mutual constraints on visas and cumbersome payments and customs procedures further limit scope for trade.

It is estimated that in the absence of cold relations between Pakistan and India, trade would have been \$591 million in 2000 compared with the recorded trade flows of \$117 million, that would have represented a peace dividend of \$474 million. Moreover a dividend 79 percent higher would have been possible, had a preferential trade agreement (PTA) been in place between the two countries. In sum, on both accounts Pakistan–India trade loses a combined potential annual gain of \$683 million, and this not counting other dynamic gains.⁴⁷

Another study estimates that Pakistan should have exported between US\$3.7 billion to US\$5.9 billion to India, more than ten times higher than its actual export of US\$337.4 million in 2005. Similarly, India should have exported between US\$4.1 billion to US\$6.6 billion to Pakistan, a sum nine times higher than what it actually exports—US\$4.6 billion.⁴⁸

⁴⁵ This section draws from our recently concluded work on formulation of National Economic Growth Framework, Planning Commission 2011. We would like to acknowledge the technical support by Jose Lopez, World Bank, Islamabad.

⁴⁶ Khan, M. S., (2009) “India Pakistan Trade: A Roadmap for Enhancing Economic Relations”, Policy Brief PB09-15, Peterson Institute for International Economics.

⁴⁷ Baroncelli E., (2007), “The “Peace Dividend,” SAFTA, and Pakistan–India Trade”, in *The Challenges and Potential of Pakistan-India Trade* by Zareen F. Naqvi and Philip Schuler, The World Bank.

⁴⁸ Vemuri, V. K. and Shahid Siddiqui (2011), “An Estimation of Latent Bilateral Trade between India and Pakistan Using Panel Data Methods” *Global Economic Review*, Vol. 40, No 1, 45-65.

Both countries are taking urgent steps to build confidence to increase trade and even explore new areas of mutual interest like tourism and IT services. A summary description of recent agreements signed on the April 27, 2011 trade negotiations held in Islamabad, are presented in Table 13.

Table 13 Salient Features of 5th Round Table Talks Between India and Pakistan April 2011

	Pakistan	Concession to	India
1	Tariff and Non-Tariff Barriers (NTBs) need to be reduced / removed.	↔	Tariff and Non-Tariff Barriers (NTBs) need to be reduced / removed.
2	Developing infrastructure through the Wagah-Attari Land Route	↔	Developing infrastructure through the Wagah-Attari Land Route
3	Pakistan side would remove its restrictions on trade by land route by October 2011	→	
4		←	Initiative to enable trade of electricity between both countries
5	Both sides to study how to expand trade in all petroleum products and to build cross-border pipelines	↔	Both sides to study how to expand trade in all petroleum products and to build cross-border pipelines
6		←	Promote Trade in cotton seeds
7		←	Cooperation in the IT Sector
8	Pakistan recognises the need and benefit to grant MFN status to India	→	
9	Replacement of the 'Positive' with a 'Negative List' by October 2011	→	

7. Afghanistan-Pakistan Transit Trade Agreement

The Afghanistan Transit Trade Agreement, 1965 (ATTA) was signed in 1965 with the objective of granting and guarantee to both parties the freedom of transit to and from their territories⁴⁹. The routes that were identified included: a) Karachi – Peshawar – Torkhum, and b) Karachi – Chaman – Spin Boldak from Karachi Port. The provision to include additional routes was also incorporated in the agreement. After establishment of Port Qasim it was included in 1988. Custom protocol attached with the agreement outlined the procedures for transit through Wagha land route - presumably in anticipation that if and when Wagha route is included the procedures may already be in place. It was also envisaged that no customs duties, taxes, dues, or charges of any kind whether national, provincial

⁴⁹ This section draws from Ahmed (2010) Afghanistan – Pakistan Transit Trade Agreement. Briefing paper presented to Planning Commission of Pakistan.

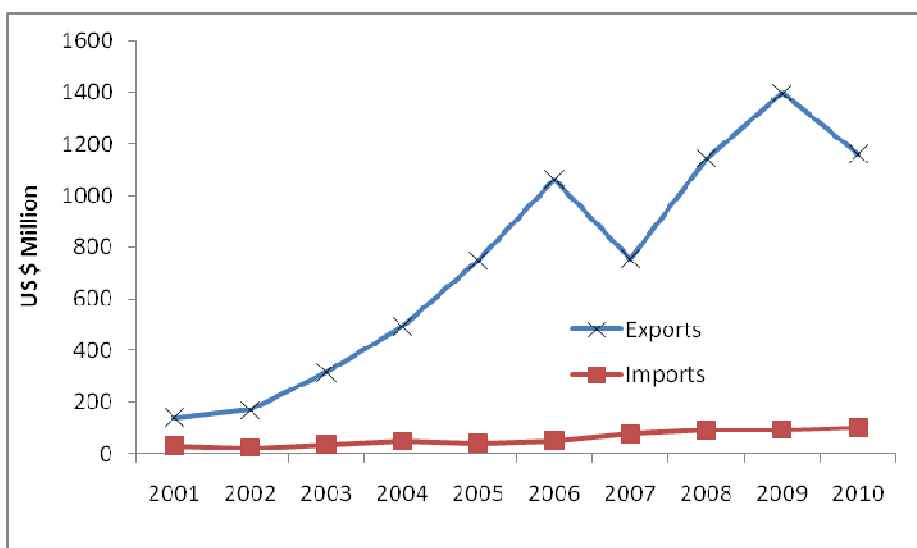
or municipal shall be levied on traffic in transit except charges for transportation or those commensurate with the administrative expenses entailed by traffic in transit or with the cost of services rendered. The railway freight, port and other dues would not be less favorable than those imposed by either Party on goods owned by its own nationals. Parties have the right to adopt any measures necessary to protect public morals, human, animal or plant life or health and for the security of its own territory.

In terms of transportation, Pakistan Railways was the only authorized carrier. Later on due to non-availability of railway wagons the transportation was allowed through National Logistics Cell (NLC) trucks. However, currently 80% of goods are transported by private trucks authorized by NLC. From maximum of 24 items at present only two items are in the negative list (cigarettes and auto parts). Pakistan is committed to UN conventions, which require member countries to facilitate transit trade of land-locked countries like Afghanistan.

Trade between Afghanistan and Pakistan

Pakistan’s trade balance with Afghanistan has been on perpetual rise since the start of this decade. Figure 9 indicates that Pakistan’s exports destined for Afghanistan totaled almost US\$ 1.4 billion in 2009, which is a substantial increase from the level of US\$ 140 million in 2001. Similarly, Afghanistan has had a chance to increase its exports to Pakistan during the same time period. In 2001, Pakistan’s imports from Afghanistan were US\$ 30 million, which rose to US\$ 101million in 2010 (July-March data). Pakistan, being the 6th largest populated country in the world, provides Afghanistan with a ready market for harnessing its comparative advantage. For Pakistan, the reconstruction opportunities in Afghanistan provide immense potential for industrial and construction activities. Pakistan’s export of services to Afghanistan has also been on the increase.

Figure 9: Pakistan’s Trade with Afghanistan 2001-10

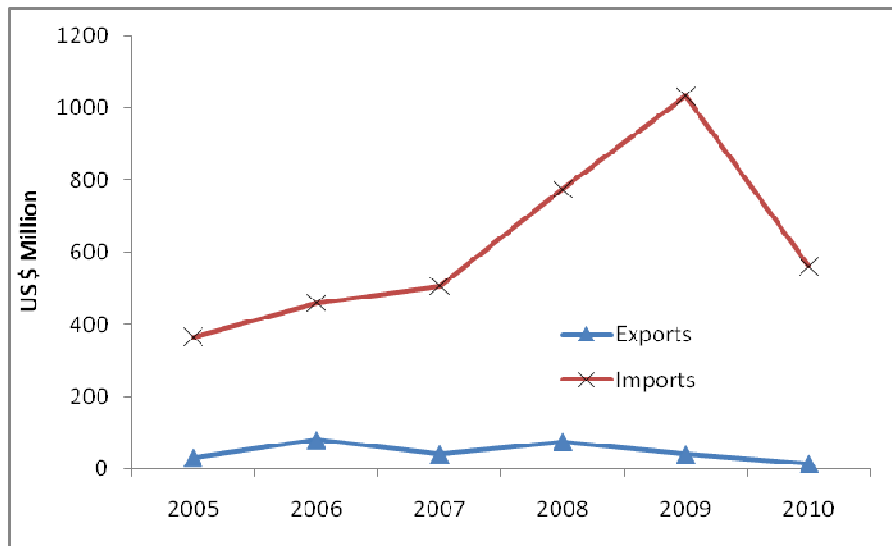


Source: UN Comtrade

The Afghan transit trade through Pakistan has been on the increase. Exports from Afghanistan are through Wagha, Karachi Port and Port Qasim. The Wagha land route for Afghanistan exports to India

was included in 1980 and is operational since then. Afghanistan’s imports only come through Karachi - Port Qasim. Figure 10 exhibits that by 2009 Afghan transit exports through Pakistan stood at US\$ 40 million. The highest levels in the recent past were in 2006 at US\$ 80 million. The transit imports through Pakistan increased from US\$ 366 million in 2005 to US\$ 1 billion in 2009. This increase is largely attributable to the rising rebuilding activity in Afghanistan.

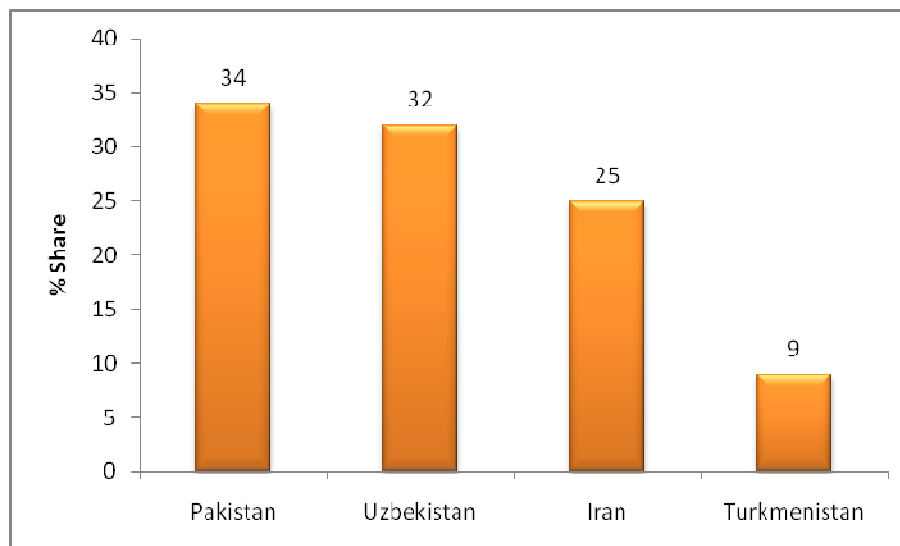
Figure 10. Afghan Transit Trade through Pakistan



Source: Economic Survey of Pakistan 2009-10

Pakistan is not the only country through which imports and exports of Afghanistan are transiting. Afghanistan also has transit agreements with Iran, Tajikistan, Turkmenistan and Uzbekistan. The share of these countries in terms of the transit load provided to Afghanistan is given in Figure 11. Pakistan leads the list with 34% followed by Uzbekistan and Iran.

Figure 11. Share of Countries Allowing Transit to Afghanistan



The Need to go beyond 1965 Agreement

The need for entering into a new Afghanistan Pakistan Transit Trade Agreement, 2010 (APTTA, 2010) arose as the 1965 agreement did not facilitate containerized cargo and did not address the issues related to pilferage and smuggling of goods. The original agreement did not foresee the impact that advanced technology might have on transit trade and as a result new routes on Pakistan – Afghanistan boarder could be opened up. The agreement also needed revision after the emergence of Central Asian republics so that Pakistan could secure its rights to use Afghanistan transit facilities for trade with Central Asia and provide transit facilities to landlocked Central Asian States.

Both sides also wanted to take into account the updated customs procedures, improve the dispute resolution mechanism, address movement of psychotropic substances and precursor chemicals misused in the manufacture of narcotics and identify specific routes for the movement of transit goods through road transportation. At present 80% of the transit goods are transported through road traffic. In February 2006, the then Prime Minister of Pakistan approved the process of renegotiations for a new Transit Trade Agreement in the fourth meeting of the National Trade Corridor Improvement Program (NTCIP). The Draft Agreement was submitted by Afghanistan in November, 2008. After detailed negotiations the Agreement was signed and ratified by the Governments of both the countries. It was to come in force on 12th February 2011. However, due to delay in completion of operational arrangements the implementation date has been extended by four months.

Salient Features and Basis for APTTA, 2010

The 1965 Agreement does not specify entry, exit and designated routes for Pakistan's exports to Central Asia through Afghanistan. In 1965, Central Asian Republics were part of USSR which did not allow entry of Pakistani origin goods through Afghanistan. Bulk of the present exports of Pakistan to Central Asia through Afghanistan is being declared as Afghan origin. The official exports of Pakistan to Central Asian States are US\$ 20 million in the total imports market of US\$ 70 billion in 2009. This low volume amongst other things is the result of low accessibility of Pakistani exporters to Central Asian countries (Figure 12).

Figure 12. Connectivity through Afghanistan



Source: Ministry of Commerce

In the absence of any legal cover in the 1965 Agreement, Pakistani exporters are currently depositing 110% of the value of the goods as security to Afghan Government for transit to Central Asia irrespective of the ownership of transporting vehicles. It takes more than a year to get the security released from the Afghan authorities through a non transparent mechanism. The exporters from Pakistan have to file registration with multiple Ministries and Agencies of Afghanistan.

The salient features of APTTA, 2010 include freedom of Transit to both countries, allowing Pakistan access to Central Asian Republics, allowing Afghanistan access to Pakistan’s sea ports and allowing Afghanistan access to Wagha for its exports to India. The agreement does not allow Indian exports to Afghanistan through Wagha land border.

In view of the above, an Afghanistan – Pakistan Transit Trade Coordination Authority will be co-chaired by Secretary Commerce, Government of Pakistan and Deputy Minister for Commerce of Afghanistan and include representatives from relevant government Ministries and Chambers of Commerce. This Authority will monitor effective implementation of the agreement, formulate and monitor measures to curb smuggling and resolve disputes regarding the interpretation or the implementation of the Agreement.

Under the new agreement the rights have been secured on permanent basis with legal cover for the following entry and exit points for Pakistan’s exports:

- Torkham to Hairatan (with Uzbekistan)
- Torkham to Torghundi (with Uzbekistan)

- Torkham to Ai Khanum (with Tajikistan)
- Torkham to Sher Khan Bandar (with Tajikistan)
- Torkham to Aqina (with Turkmenistan)
- Torkham to Torghundi (with Turkmenistan)
- Chaman to Islam Qala (with Iran)
- Chaman to Zaranji (with Iran)

Afghan trucks will be allowed access to sea ports carrying Afghan cargo for exports. Afghan trucks carrying Afghan cargo to sea ports of Pakistan would be allowed to lift Afghanistan transit goods imported through sea ports. Only Afghan trucks having valid permits and drivers duly cleared by biometric security systems will be allowed entry in Pakistan. Afghanistan is allowed to use Pakistani trucks for transit of its goods from Pakistani ports to Afghanistan. Empty Afghan trucks would not be allowed entry in Pakistan. Afghan trucks will be allowed to travel up to sea ports and Wagha land border station on designated routes only. The law enforcement agencies will ensure their monitoring and security through modern tracking methods.

The Need to Evaluate the Socio-Economic Implications of APTTA, 2010

In our knowledge there is no quantitative study until now that evaluates the socio-economic costs and benefits of APTTA at the government, firm and households level. While the government is expected to gain transit-related fees, the firms on both sides are expected to find new markets for their goods and services across Asia. Similarly household sector will benefit on two accounts. The Pakistani workers in sectors having export potential for Central Asian countries are expected to see their wages increase in the long run (similarly for Afghanistan). Second, if specific less expensive imports from Central Asian countries find their way in to Pakistan this can increase the consumer surplus in the form of cheaper prices (similarly for Afghanistan).

8. Survey Results

Traders (Individuals/Business Groups)

The Commerce Ministry in Pakistan provided details of Pakistani traders who are trading with India and Afghanistan. The overall responses were spread over industries such as food and beverages, wood products, building construction, textile and surgical products⁵⁰. Many did not respond citing their low levels of trade with SAARC region. The results show that operational time delays, sensitive list, ignorance of transit agreement, trivial regional cooperation, tensions in border crossings, terrorism, human trafficking and non harmonious political relations of Pakistan with India and Afghanistan are important issues affecting trade.

Approximately 40% of the goods traded with India are transported through road, 40-45% via sea and the remaining 10-15 % by air. Rating the efficiency of clearing process by the border control agencies including the customs, 50% are of the view that predictabilities of the formalities are very low, and 30% were not satisfied even with the existing reforms for speeding up processes. About 70% of the respondents attached high score to trade related infrastructure, especially the role of Pakistan Motorway linked with Lahore and Peshawar. At present there is no rail network with Afghanistan.

⁵⁰ Although contacts were established with most industries, however we only received responses from these.

The operationalized Attari-Wagha-Lahore rail network has not shown rising trend in trade. In the current trading regime and set of goods being traded, the respondents attached low score to the importance of information technologies.

Around 30% reported difficulty to track and trace consignment when they are trading with India. Response for the same was higher at 40% in case of Afghanistan. The customs and border agencies apply the same rules to export and import commodities to/from India and Afghanistan, and therefore all the traders informed same cargo logistic requirements from Pakistan to both the India and Afghanistan. The security and insurance requirements are cumbersome while trading with Afghanistan. In case of expected delivery time, 67% reported delays in trading time for Afghanistan and 25% reported delays while trading with India (mostly in case of exports).

The traders were also asked about the operational logistic cost in different mode of transactions. The data collected is mostly from the business community in Peshawar and Lahore. Most of the respondents are trading via road and few of them use road-sea route such as Lahore-Karachi-Dubai-Mumbai or Lahore-Karachi-Mumbai. All the traders irrespective of their scale described the operational logistic cost as high in all the transportation modes. These take the form of port charges, airport charges, road transport levies, rail transport rates while trading with India or Afghanistan.

The competence and quality of services provided by the transport (road, rail, air, maritime) sector were termed less than satisfactory. The respondents attached high importance to the warehouses at the borders on both sides. Moreover, the quality/standard inspection agencies were termed as a barrier rather than facilitators. While customs officers were termed competent, the respondents pointed towards the need for regular capacity building of these officers with respect to changing international regulations. Around 80% reported that it is the lack of clarity in the case of customs officers that leads to time delays. Furthermore, they desired further transparency in customs procedures. They complained about not receiving adequate and timely information when regulation changes take place.

Respondents favoured Bangladesh's business environment especially in textile sector. They highlighted many factors responsible for the shifting of leading production units from Pakistan to Bangladesh. These factors include power shortages, hike in electricity tariffs, withdrawal of the government incentives, cancellation of foreign orders due to time delays, and coordination and information asymmetries between various institutions including financial intermediaries. One of the respondent reported anecdotal evidence that while he was in Malaysia recently and wanted to remit money back to Pakistan, the exchange company in Malaysia refused the transfer, stating that Pakistani counterparts delay the onward payment to the ultimate recipient, and therefore there is no guarantee of money reaching on time. The traders are particularly concerned by the continuous hike in the discount rate by the State Bank of Pakistan. They believed that this could lead to traders increasingly shifting business to countries with easier terms.

Trade Associations (Chambers/Commodity Specific Associations)

Questionnaires were sent to all Chambers and Trade Associations in the country. Detailed responses were received from Peshawar, Islamabad and Lahore Chambers of Commerce. A detailed focal group discussion was also held with Islamabad Chamber of Commerce. They attached critical importance to the electricity load shedding during summers and gas load shedding in winters, which is leading to the closure of manufacturing sector firms. This grim situation leads to increase in the cost of production and ultimately to loss of competitiveness. Regarding the trade facilitation in Pakistan, they criticized the poor connectivity with India and Afghanistan, e.g. land, sea and air and especially people to people contact. Inadequate horizontal and vertical integration, absence of regional production network in key industries, and complex and cumbersome procedures both at and behind the borders were the main concerns.

The reason for inadequate transportation facilities is high cost of uncertainty while trading with Afghanistan and India. This uncertainty is quantitatively ranked highest in the world. Furthermore, restrictive policies on intra regional investment e.g. permitted sectors, equity restrictions, and lack of warehouses across the border and testing facilities for perishable and non-perishable goods delay shipments. Moreover, they were of the view that cross-border transit should be allowed, rail network with Afghanistan should be developed, cross-border movement should be allowed beyond border areas, and clearing houses should be designated for fast disposal of merchandise.

Islamabad Chamber of Commerce (ICCI) reported a strict visa regime, especially from Indian government, as an important impediment. In 2010, 350 businessmen applied for visa through ICCI and only 32 visas were granted. They further expressed that quota on visa stickers leads to delays, period of validity and scope of travel permitted is too narrow. They also desired an increase in validity term of visa exemption and move from sticker scheme to an electronic business travel card, and installation of electronic readers at airports. They also complained about paper-based customs procedures.

The proposals forwarded by Islamabad Chamber included uninterrupted transportation network and world class infrastructure facilities for cross border transit, such as: enhancing rail network with Afghanistan; improving land custom stations; expanding the custom station in size including parking, warehouses and testing laboratories of international standards; up gradation of land custom stations at Wagha and Torkham; and adoption of e-business methods.

Government Organizations

Three main organizations that we contacted were Trade Development Authority of Pakistan (TDAP), Customs Pakistan and Ministry of Commerce. All organizations wanted better inter-governmental coordination of trade policy reform to start with. While the current trade policy has been appreciated by all segments, the Ministry of Commerce felt that several key proposals will not see their implementation due to: a) coordination failures, and b) lack of financing owing to the fiscal crunch.

In case of Afghanistan, the government organizations were of the view that the actual trade volume is greater. However a large chunk of informal trade is difficult to record. It was also emphasized that insurgency on Afghan side of the border is also a long standing issue which requires immediate solutions. Strong linkages are required between the customs departments on both sides of the border. The general lack of capacity with Afghan customs hinders movement of goods and usually leads to time and cost delays.

TDAP explained the need for more EXPO exhibitions in Afghanistan. They felt that the capacity of Pakistan's industry to work in Afghanistan should be showcased in Kabul more frequently. Particularly industries related to construction and food processing should be interested. Afghanistan is also a key destination for Pakistan's services exports. These are mainly in transport and communication sectors. Pakistan is providing transit and logistic services to the coalition forces that reach Afghanistan en route from Pakistan. TDAP felt that these services could be improved by speedy implementation of NTC program.

Former Trade Attaches and Officials, who had been involved with Pakistan – India trade facilitation, stressed the need for improved relations at the level of ministries of commerce and interior on both sides. There is strong intention of business community to extend relations on both sides; however, political considerations related to economy need to be resolved.

9. Concluding Remarks

The report has highlighted the required improvements in infrastructure arrangements to facilitate trade for fostering cooperation in South Asia between Pakistan, Afghanistan and India. However, trade facilitation also requires harmonizing customs procedures and harmonizing the regulatory framework of other controlling authorities at the border crossings. Linkages need to be established among the customs organizations of the respective countries to exchange data so that export document of one country could serve as the import document of the other country. The phytosanitary and other quality standard of the countries need to be exchanged and harmonized to the extent possible to eliminate the technical barriers to trade. Finally the relations between India and Pakistan must be broad-based and allow guarantee towards non-reversal of a liberalized bilateral trading environment. Towards achieving this objective governments on both sides must be helped by the business community and civil society.

Pakistan must also realize that while additional investment in trade infrastructure is necessary for sustaining economic growth, an equal emphasis is required to address issues that keep the existing infrastructure underutilized. In its overall infrastructure score, Pakistan is almost in line with its regional competitors, however it fares poorly when it comes to organizing and managing the already available assets.

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Annexure 1

Economic Corridors and Trade Facilitation in South Asia: Pakistan Perspective

Q. 1

1.1	Name of Organization:		Date:
1.2	Country/ City		
1.3	Year of commencement of business activity		
1.4	Type of business: (Please tick multiple if more are relevant)		
Industry			
a	Light Engineering	G	Manufacturing of wood and wood products/furniture
b	Textile wearing and apparel	H	Manufacturing of paper and paper products, printing and publishing
c	Sports	I	Manufacturing of chemicals, petroleum coal, rubber and plastic products and manufacture on non metallic mineral products except petroleum.
d	Surgical	j	Basic metal industries- Manufacturing of fabrics metal products, machinery and equipment
e	Leather and leather products		
f	Manufacturing of food, Beverages and Tobacco	K	Other _____(Please Specify)
Services			
l	Building construction	O	Transport and storage
m	Restaurants and hotels	P	Real estate and business services
n	Personal and household services	Q	Wholesale retail and trade.

Q2. Name and position in your company/organization

Name	
Position	
➤ Owner	
➤ Senior Executive	
➤ Area and/or Country Manger	
➤ Department Manager	
➤ Supervisor	
➤ Operation	
➤ Others	

Q.3 How long you have been in this business? Please specify number of years/months

Q.4 Organizational Level

Corporate	
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and/or Regional Level	
Country Branch Office	
Local Branch Office	
Independent Firm/Entrepreneur	

Q.5 Type Agency/organization

Traders	
Traders Associations/Chambers	
Trader Authorities	

Q.6 The mode of trade you are primarily dealing with

Exports	
Imports	
Exports and Imports	
Domestic	
All	

Q.7 How do you transported your goods

Maritime	
Road	
Rail	
Air Transport	
Express Delivery	
Multimodal	

Q.8 Which of the geographical region do you deal mostly in your work?

- a. North America
- b. South America
- c. Europe
- d. Africa
- e. Australia/New Zealand
- f. East Asia (incl. Japan)
- g. South Asia
 - i. India
 - ii. Afghanistan
 - iii. Bangladesh
 - iv. Nepal
 - v. Sri Lanka
 - vi. Other
- h. Russia/China

Q.9 Rate the efficiency of clearance process (e.g. speed, simplicity and predictabilities of formalities) by border control agencies including customs

9.1 Speed

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

9.2 Simplicity

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

9.3 Predictabilities of formalities

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

Q.10 Evaluate the quality of trade and transport related infrastructure (i.e. airports, ports, railroads, roads, information technologies etc)

10.1 Airport

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

10.2 Railroad

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

10.3 Road

	Very low	Low	Average	High	Very High
India					
Afghanistan					

Any other country of South Asia Please specify, below					

10.4 Information Technology

	Very low	Low	Average	High	Very High
India					
Afghanistan					
Any other country of South Asia Please specify, below					

Q.11 What is the level of your overall ease of trading with following countries?

	Very Difficult	Difficult	Average	Easy	Very Easy
India					
Afghanistan					
Bangladesh					
Sri Lanka					
Nepal					

Q.12. Rate the ability to track and trace your consignment while transportation to the following countries

	Very Difficult	Difficult	Average	Easy	Very Easy
India					
Afghanistan					
Bangladesh					
Sri Lanka					
Nepal					

Q.13 Evaluate the cargo logistic, security and insurance requirements (i.e. screening, advance information etc)

	Very Difficult	Difficult	Average	Easy	Very Easy
India					
Afghanistan					
Bangladesh					
Sri Lanka					
Nepal					

Q.14 When arranging the shipments to the countries listed below, how often the consignments reach within the scheduled or expected delivery time?

	Hardly Ever	Rarely	Sometime	Often	Nearly Always
India					
Afghanistan					
Any other country of South Asia Please specify, below					

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Q.15 Based on your experience describe the operational logistic costs in your work environment

	Very High	High	Average	Low	Very Low
Port Charges					
Airport Charges					
Road Transport Rates					
Rail Transport Rates					
Warehouses/translating service charges					
Agent Fees					
Other (specify)					

Q.16 Evaluate the quality of trade and transport related infrastructure (i.e. ports, railroads, roads, information technologies etc)

	Very Low	Low	Average	High	Very High
Port Infrastructure					
Airport Infrastructure					
Road Infrastructure					
Rail Infrastructure					
Warehouses/trans loading facilities					
Telecommunication infrastructure and IT services					
What would you like to see changed in any of the above infrastructure? _____					

Q.17 Evaluate the competence and quality of services delivered by the following in your work environment

	Very Low	Low	Average	High	Very High
Road transport services provider					
Rail transport services provider					
Air transport services provider					
Maritime transport services provider					
Warehouses/transloadomg and distribution operators					
Freight forwardness					
Custom agencies					
Quality/standards inspection agencies					
Health/SPS (Sanitary Phyto-Sanitary) agencies					
Custom brokers					

Trade and transport related associations					
Consignees or shippers					

Q.18 Evaluate the efficiency of the following process in your work station

	Hardly Ever	Rarely	Sometimes	Often	Nearly Always
Are import shipments cleared and delivered as scheduled?					
Are exports shipments cleared and delivered as scheduled?					
Is Custom clearance is transparent process?					
Do you receive adequately and timely information when regulation changes?					
Do traders demonstrating high level of compliance receive expedite Custom clearance?					

Q.19 How many government agencies including customs do you typically deal in your country of work?

Exports	
Imports	
Domestic Commerce	

Q.20 How many documents you submit to border related government agencies involved in clearance process for export and imports including Customs

Punjab to Afghanistan	
Khyber Pukhtoonkhawa to Afghanistan	
Khyber Pukhtoonkhawa to India	
Punjab to India	

Q.21 The average time taken by imports and exports after declaration and notification of clearance

Without physical inspection	
With physical inspection	

Q.22 Evaluate the following statements regarding Customs

	Yes	No	N/A	Do not Know
Can Customs declaration be submitted online?				
Do Customs allow for pre arrival clearance of merchandise/shipments for imports?				
Does the Custom code require importers to use a				

licensed Custom Broker to clear goods?				
Do Custom use post clearance audit for imports?				
Are you and your customers able to choose the location of the final clearance of the goods for imports?				
Can goods be released pending final clearance against an accepted guarantee?				
Are you and your peers invited for dialogue by Customs through a formal process (periodic meeting, consultative forum or committee or the like)?				
In case of disputer with Custom or other border agencies, is a review/appeal procedure available?				
Do you receive advance notification of binding changes with respect to tariff classification, valuation or rules of origin?				

Q.23

Dwell Time	
Time taken (in no. of days) process -	Actual Time Taken (in no. of days)
(a) Obtaining different export /import codes	
(b) Obtaining different Licenses	
(c) Revalidation of Export Licenses	
(d) Processing of Shipping Bills through EDI	
(e) Obtaining various refunds like duty drawbacks	
(f) Getting remittances through banks	
(g) Customs clearances	
(h) Final dispatch of export consignments	
(i) Any other delay that needs improvement	
Do you feel that the average time required for clearance through Customs is high?	

Q.24 Please indicate the number of any trade related disputes you faced while trading with the following countries

- India
- Afghanistan
- Any other trading partner

Q.25 What dispute resolution mechanism will you prefer while trading with South Asian countries?

Q.26 What is the level of ease of existing dispute resolution mechanism while trading with South Asian countries?

	Very Difficult	Difficult	Average	Easy	Very Easy
India					
Afghanistan					
Bangladesh					
Sri Lanka					
Nepal					