



# THE INDUS TRADE CORRIDOR

## Unlocking Pakistan's Potential



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# GOP recognizes importance of transport to economy, but not focused on supporting trade

- Investing ~35 bil PRs/yr in ports, rail, and roads
- Beginning to reform Pakistan Railways
- Private Sector involvement in ports
- Beginning to improve TF—especially documentation and legal environment of transport
- Initial medium term framework of prioritized investments in the transport sector in place
- But these efforts are not yet focused on the key trade corridor...

# THIS CORRIDOR 'MOVES' PAKISTAN'S EXTERNAL AND INTERNAL TRADE.....



- 2 ports handling 95 % of external trade.
- Two main roads and a main railway line handling 65 percent of total land freight.
- 10 dry ports catering to high value external trade.
- Pipelines carrying 6 mil tones of POL.

# INDUS TRADE CORRIDOR not just ports-roads-rail, but A COMPLETE LOGISTICS 'SYSTEM'

- Infrastructure—ports, roads, rail, warehouses/dry-ports, and pipelines
- Services—shipping and port services, trucking, railways, handling, warehousing, customs, insurance, banking, ICT, freight forwarding
- Procedures—legislation, regulation, administration, documents, data,

# BUT IS OF POOR QUALITY AND IS INEFFICIENT —adding to trade costs,.....

- Container dwell times at ports are 11 d—4 times that of developed countries and 3 times that of East Asia; of this, customs clearance alone takes 4–5d—1.25 h in Singapore
- Road freight (which carries 95 % of land freight) takes 3–4 d between ports and north country (1400-1800 km)—twice the equivalent time in Europe or East Asia
- Trucking rates for high value commodity traders higher than India and Brazil, and same as China (where service quality higher)
- Rail carries < 5 % of freight and takes 21–28 days to deliver upcountry (1800 km)—4 to 7 times slower than in China and US

# ...is already inadequate, costing economy dearly! CAN IT SUPPORT 7-8 % SUSTAINED GROWTH?

- Even at this poor level of service, the corridor utilization (100-110 bil tkm) is more than 80 % of existing capacity
- Poor performance costing economy 4-6 % of GDP (per annum)
- Projected growth will double demand (190-210 bil tkm) by 2015, and require much higher levels of service
- On top of that passenger demand will be competing for available capacity
- GOP investing 5 times less (as percent of GDP) than East Asia/China

# PORTS DETERRING TRADE—high costs and poor performance

- It's a costly port to enter—costs 5-9 times more than some others in region (Vessel call charge, US\$: Pakistan 30,000; Jebel Ali 6,700; Salalah 3,900)
- The ports' limited draught (9-12 m) keeps the latest and most efficient ships from calling
- Shore to port-gate logistics extremely slow (dwell times)—port looking for more shore space even though berth occupancy is low
- Redundant dock labor costing trade \$15-20/TEU (total handling charge in East Asia and India between \$50-90/TEU)

# INFORMAL / OLD TRADE PRACTICES HURTING PAKISTAN'S COMPETITIVENESS

- Non-factor services (transport insurance and related services) ~16% of the foreign trade account (4-6% in EU)
- Potential annual savings through improved TF in excess of one percent of GDP
- Customs clearance taking on average 2-3 days longer than East Asian norms (an additional day of delay = 0.5% value loss)
- Poor physical logistics—e.g., local transit time alone is 40% of total transit (to markets)
- Pakistan one of few countries where trade is more 'e-challenged' than government

# ROAD TRANSPORT: LOW RATES, LOW QUALITY, and incurring HIGH ECONOMIC COSTS

- Inefficient rail operations forcing larger than normal share of low value commodity freight onto trucks
- Truckers forced to keep rates low (1-2 cents/t-km) and overloading very high
- Roads in poor condition (> half of corridor in poor condition) and Pakistan' road safety record poor (146 out of 180)
- Long travel times (by a factor of 2) and low trip speeds (20-25kph vs. 75-80kph in Europe)
- Large road freight share costing economy 60-90 bil Rs/yr in extra fuel cost and subsidies on diesel
- Plus 30 bil Rs/yr in additional road user costs and a 25 bil Rs/yr contribution to the infrastructure deficit

# PAKISTAN RAILWAYS UNABLE TO PULL ITS OWN WEIGHT

- No 'real' rate (1-2c/tkm) advantage over road (1-2c/tkm)—e.g., China rail (0.5-1c/tkm) 2-3 times cheaper than road
- Dismal service quality for freight vis-à-vis delivery times, reliability, tracking information
- Not a freight railway—focus and total priority to PAX
- Bulk of freight carried belonging to public sector
- Private sector usage almost nil except when legally required—e.g., Afghan Transit Traffic

# ...but THIS CAN'T CONTINUE IF PAKISTAN IS TO SUSTAIN 7-8% ANNUAL GROWTH

- GOP needs to take an integrated view of the Indus Trade Corridor transport logistics system
- Plan, invest, and manage the corridor as a means to delivering the economic growth and diversification target
- MODERNIZE.
- MODERNIZE?
- MODERNIZE!

# NEED AN EFFICIENT AND LOW COST INDUS TRADE CORRIDOR LOGISTICS SYSTEM

- Reduce port container dwell times to 3-4 d
  - Reduce port charges by 15-20 %
  - Reduce Customs Clearance (Sea) to 2 d
  - Streamline trade procedures (NFSC less by at least 5 %)
  - Reduce Ports – North delivery times to 24 h
  - Reduce total land transport costs by 10-20 %
  - Reduce economic and social costs along the corridor
- Ports and TF  
~ 2 bil US\$
- Rail ~ 1 bil US\$  
Road ~ 3 bil US\$

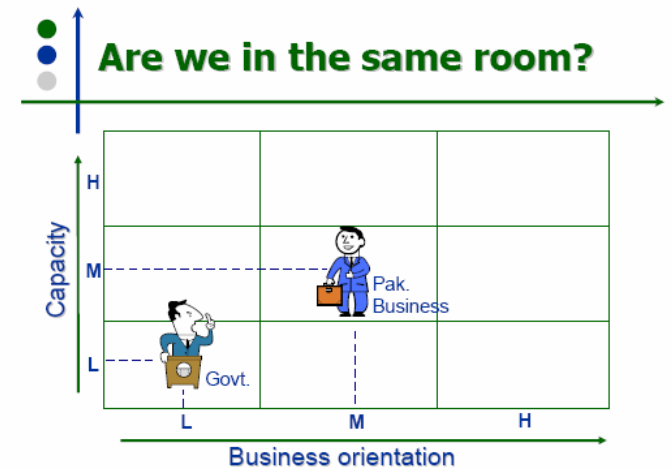
**.....an investment of nearly 1 percent of GDP annually  
over a 5 to 7 year period**

# Ports must reduce costs, improve logistics, and upgrade infrastructure

- Berth draft of Karachi and/or P.Qasim to 14.5m plus new port sector master plan
- Reduce free cargo dwell time to 3/4 days
- Reduce vessel charges to international norms
- Reduce port costs
- Professional, focused port management
- Streamlined customs procedures and processes
- Establish IT Port Community Network

# Modernize trade logistics practices...no option if Pakistan to compete regionally and globally

- Trade facilitation strategy
- Implement CARE faster—bi-yearly customs performance measurements
- Develop FF, Insurance, Banking in support of trade logistics
- Documentation reform
- Strengthen the NTTFC
- Revamp/modernize other trade organizations (such as FPCCI)
- Publicize TF—WTO, SAFTA, ECO



# Bring roads and trucking into the 21<sup>st</sup> century

## Roads

- Commercial management of N-S highways
- Improve/modernize N-S highways and introduce ITS (start with electronic tolling)
- Segregate NMT/local and motorized/through traffic

## Trucking and warehousing

- Modernize trucking fleet/sector
- Implement specification, weight and size regulation
- Modify MVT / registration
- Encourage public-private inter-modal freight handling facilities

# PR can play a key role, BUT.....it's a LONG HAUL and REQUIRES SUSTAINED COMMITMENT

- Create a PR Freight Business with its own locos, rolling stock and staff
- Create the commercial rail corridor eliminating cross subsidies from freight to PAX and from main lines to branch lines
- Encourage the introduction of private sector management and finance in the rail freight sector
- Track access for PR' freight business to be ensured—Karachi-Lahore container services times down to 'real' 24 h
- PR freight business not to be limited to rail services
- PR freight business senior management on market based (M1, M2, ..type) pay-scales

# Requires *INVESTMENT AND POLICY CHANGE* supported by *LEADERSHIP AND MANAGEMENT*



# So, we suggest the following course of action.....

- Endorse Indus Trade Corridor Goals
- Provide high level leadership—Indus Trade Corridor Council (led by PM and including concerned Sector Ministers, Provincial CMs, Finance Minister/Advisor, Trade and Industries Ministers)
- Establish a professionally staffed interagency task force housed in the PC and reporting to Chairman of the PC to lead planning and implementation
- Prepare a detailed 'Work Program' in partnership with Bank team within the next few months

We are committed to support you.....

