National Trade Corridor Challenges: Vision to Implementation

Pakistan Development Forum
The Demographic Dividend: Unleashing the Human Capital

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GOP Focus: Trade growth and trade led growth require trade facilitation …

- Infrastructure (communications and transport) and to a lesser degree institutions effect trade rather than tariffs (***Institutions, Infrastructure, and Trade, Francois and Manchin, World Bank Policy Research Paper 4152, March 2007***)

- Need to diversify from the old trade policy pivot—developing country market access

…to break into new markets and diversify export commodities

- Infrastructure and Institutions (i.e., Trade Facilitation) significantly determine not only
  - export levels, but also
  - the likelihood of trade taking place at all—propensity to take part in the trading system behaves similarly.

Too few markets and too few export commodities force the market access debate…

In 2005 recognizing TF-Growth linkage—started the National Trade Corridor Initiative

Reduce overall trade-related transport and logistics costs

thereby

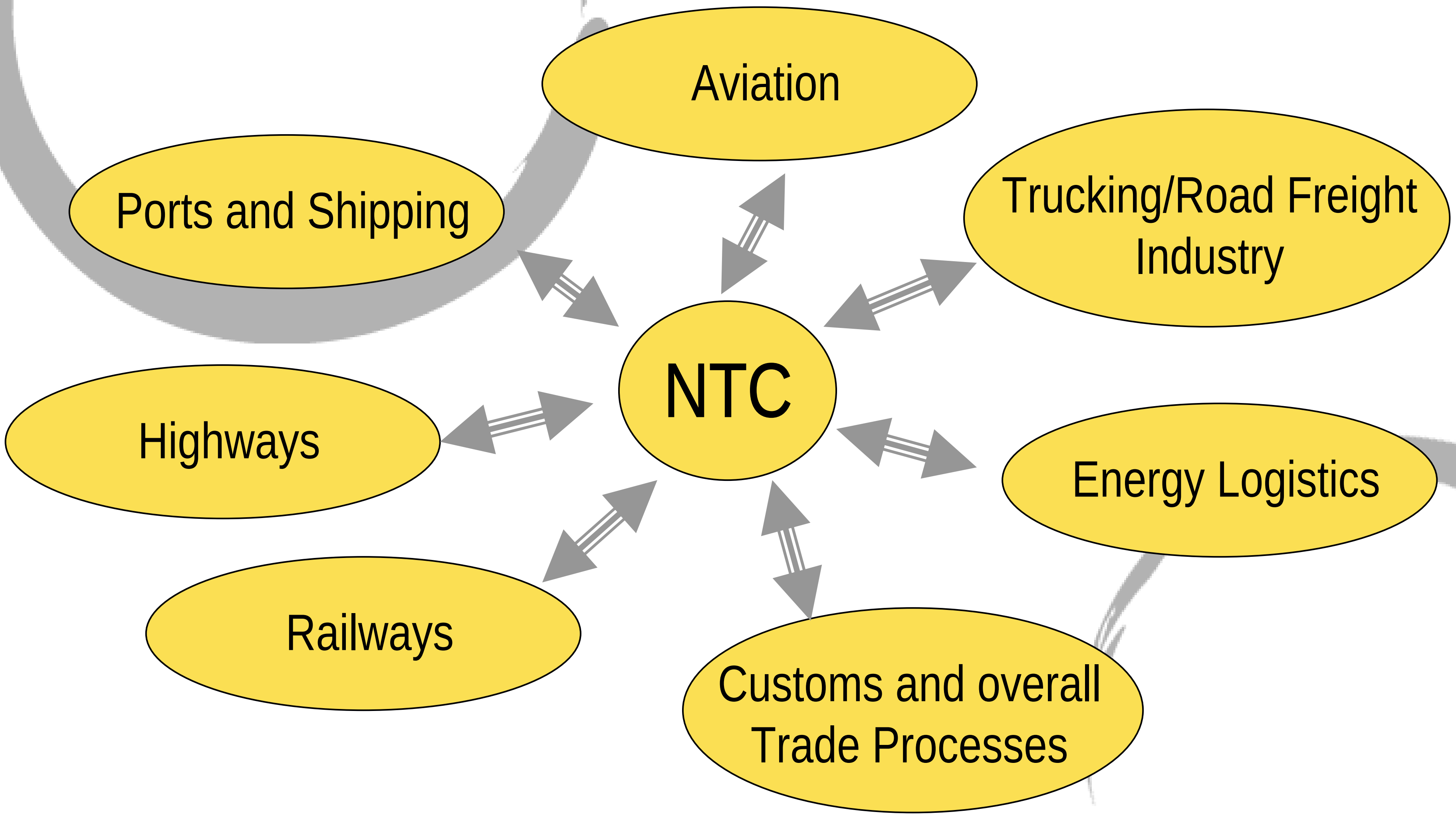
- decreasing the cost of doing business
- lowering the indirect losses being incurred

resulting in

<u>trade competitiveness and industrialization</u>

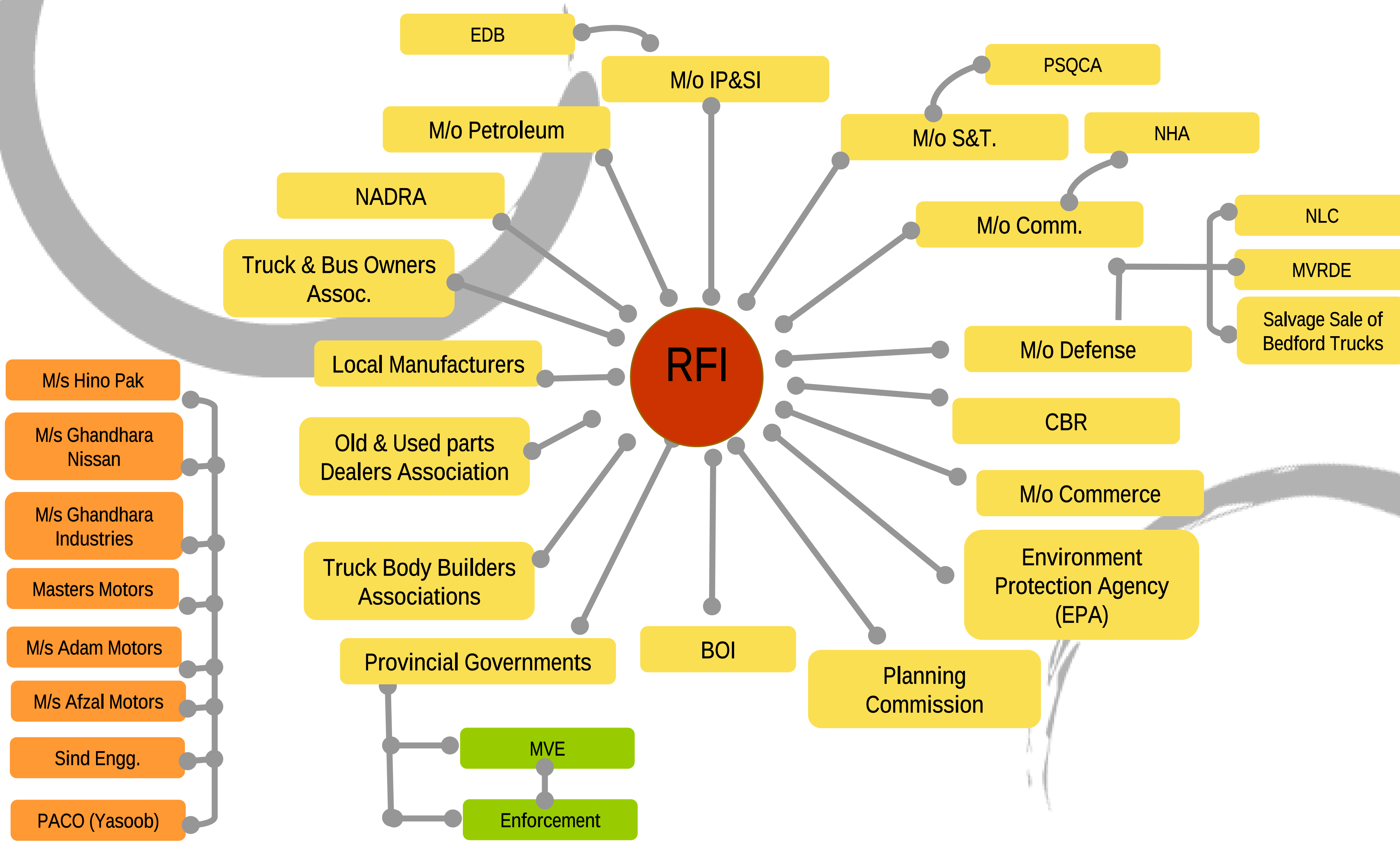
- Estimated Savings: Rs200-250bil/yr (>2% of GDP)—including Rs115-145bil/yr in Highways, Trucking, and Railways; Rs27bil/yr in Ports; and, Rs75bil/yr Trade Logistics

NTCIP recognizes trade supporting logistics is a wide domain……

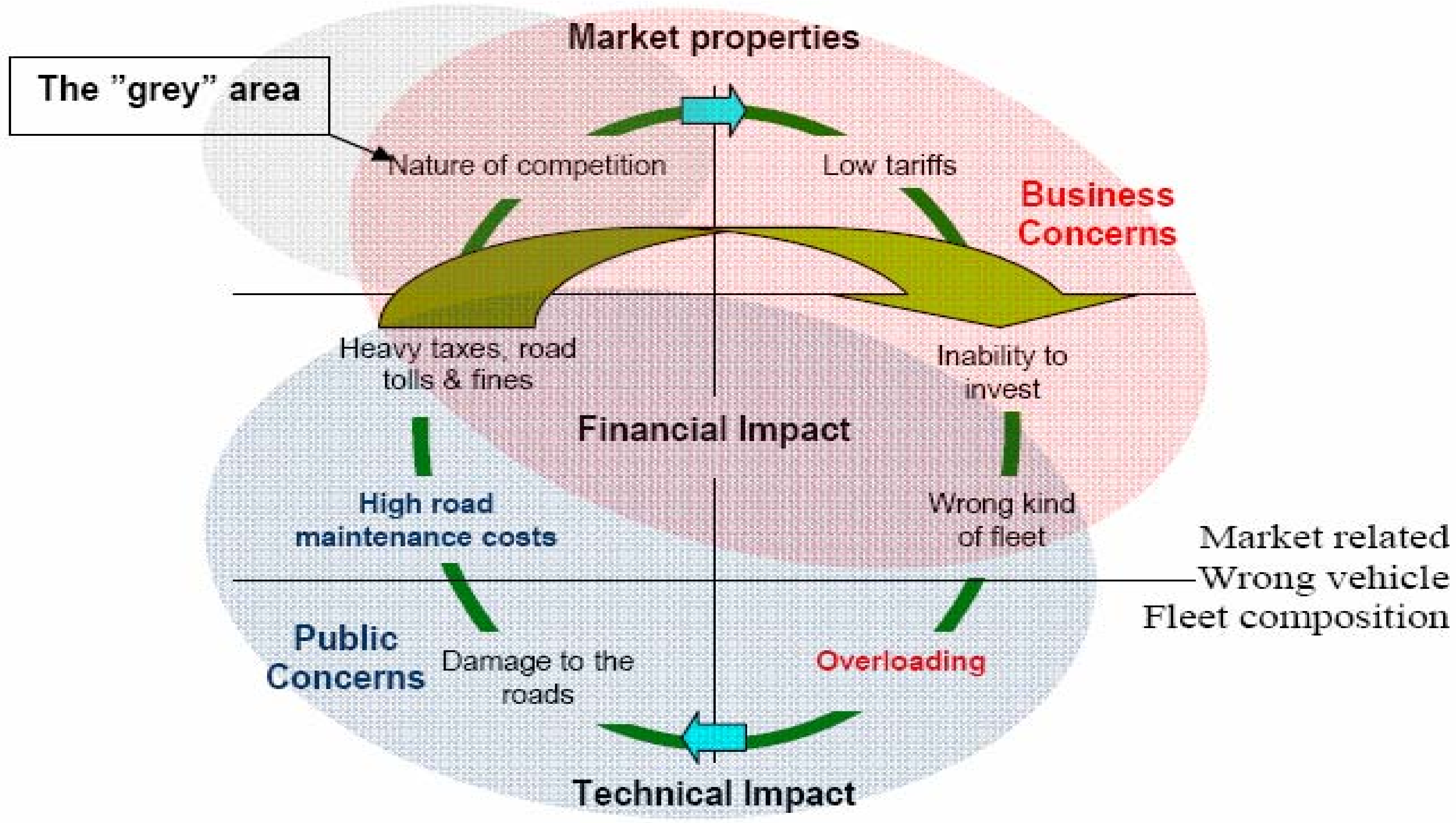


As there are many links in the trade chain.....

…numerous overlapping interest groups—e.g., Trucking/Road Freight Industry alone!

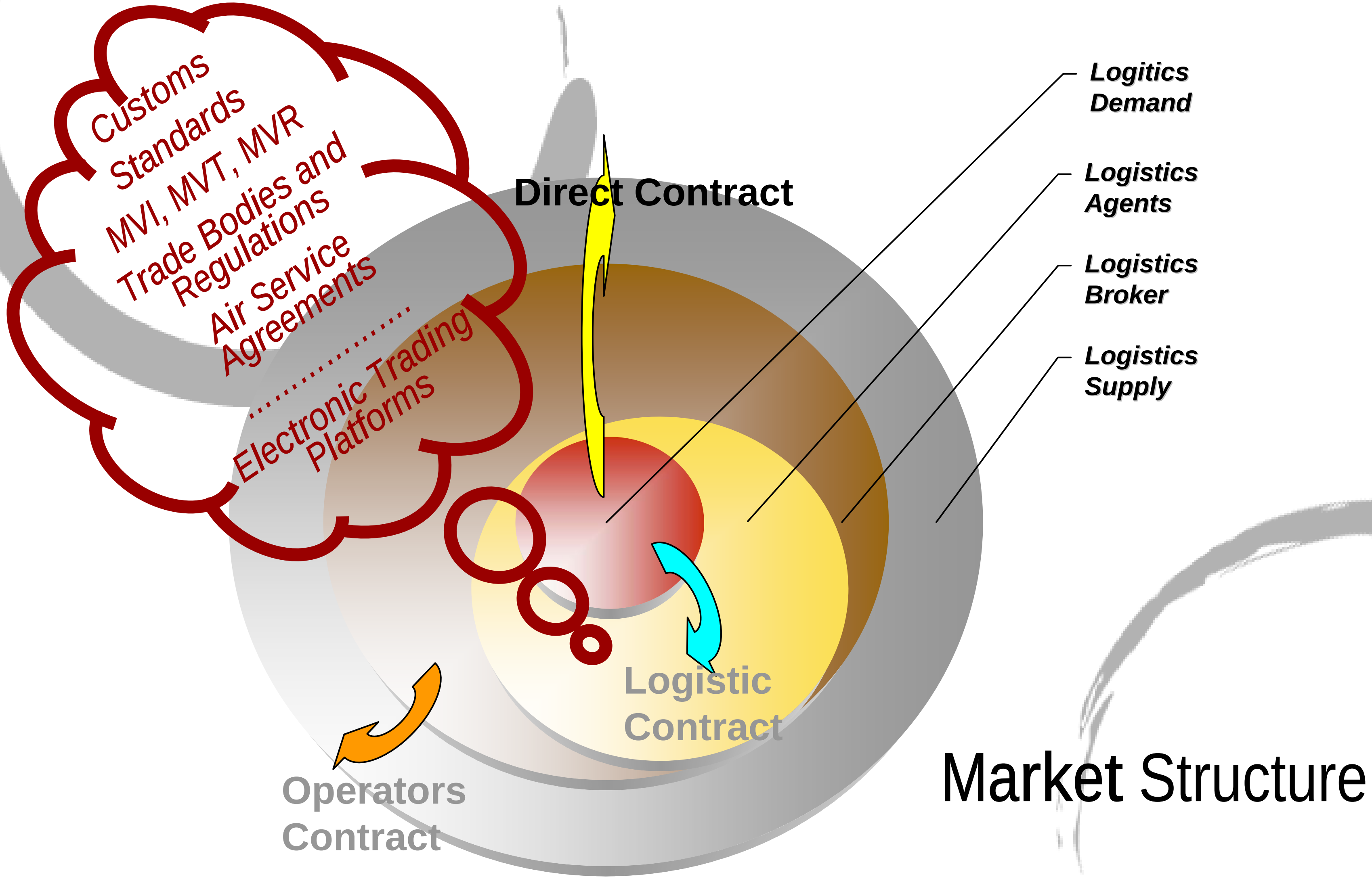


.....layers and layers of issues and distortions…sort of like peeling an onion



Adapted from Finnroads' Pakistan WCM Study 2005

NTCIP offers opportunities for both public and private reforms...........



Process of Implementation of NTCIP puts funding as the last priority……….

1. “Trusted” leadership
2. Stakeholder engagement
3. Respecting the process
4. Technical support (deal with data and not impressions)
5. Incrementalism—don’t change the world overnight
6. Advice = Advise (factors other than those presented by technicians have to be considered)
7. Good communications and media support (vis-à-vis process of decision making)
8. Civility (don’t personalize debate on issues—refer to 4 above ☺)
9. Patience to see decisions implemented through
10. Adequate funding

NTCIP 'chipping away' at the ills of Pakistan's Logistics Reforms in the last 18 months….

Logistics costs reassessed –down from 11.01 % of the FTA in 1996 to 6.11 % in 2006; Customs Clearance times at KICT down from 4 d to < 1 d; 'Reefer Industry' tariffs restructured

Draft Ports benchmarking completed; 15 % wet charges and 30 % free dwell time reduction notified, KDLB closure process started, and new dredger procured, by KPT

Draft Road Freight Industry Policy prepared; first phase of RFI tariff restructuring completed; TIR commission established; Pilot overloading control program implemented by NHMP

PR first NTC entity to prepare draft Corporate Business Plan; Number of daily freight trains up from 1 to ~10; Railway PAX Fares increased

N5 Road Corridor Improvement Plan (Expressway Corridor) appraised and approved; spot interdictions on N5 reduced

FF Rules formulation by PIFFA and CBR started; SBP allows external remittance to FF; FF trainings organized

2006/07 NTC budget allocations increased to 31.5% of infrastructure development @ Rs. 37.6 billion as compared to Rs. 32.6 billion in 2005/06

...but these early measures make clear the need for trade internal reforms to make Pakistan competitive..

Non-factor cost down but total logistics cost still very high (29 % vs UNCTAD top ten average of 6%)

Major internal **logistics challenges** in Pakistan remain, and are:

a) Domestic Transport

b) IT Development

c) Contemporary 'in-house logistics'

Hence the Stakeholders in NTCIP need to re-strategize!

…early measures make clear the need for trade internal reforms to make Pakistan competitive..

FACT I:
Government-trade logistics contracts (the G2T markets) being made more efficient by NTCIP but trade-trade contracts (the T2T markets) not improved improving

FACT II:
Pakistan's image as a poor supplier and processor are a combination of production and supply problems—extra pressures on logistics are expected to compensate for delay in production and poor quality control

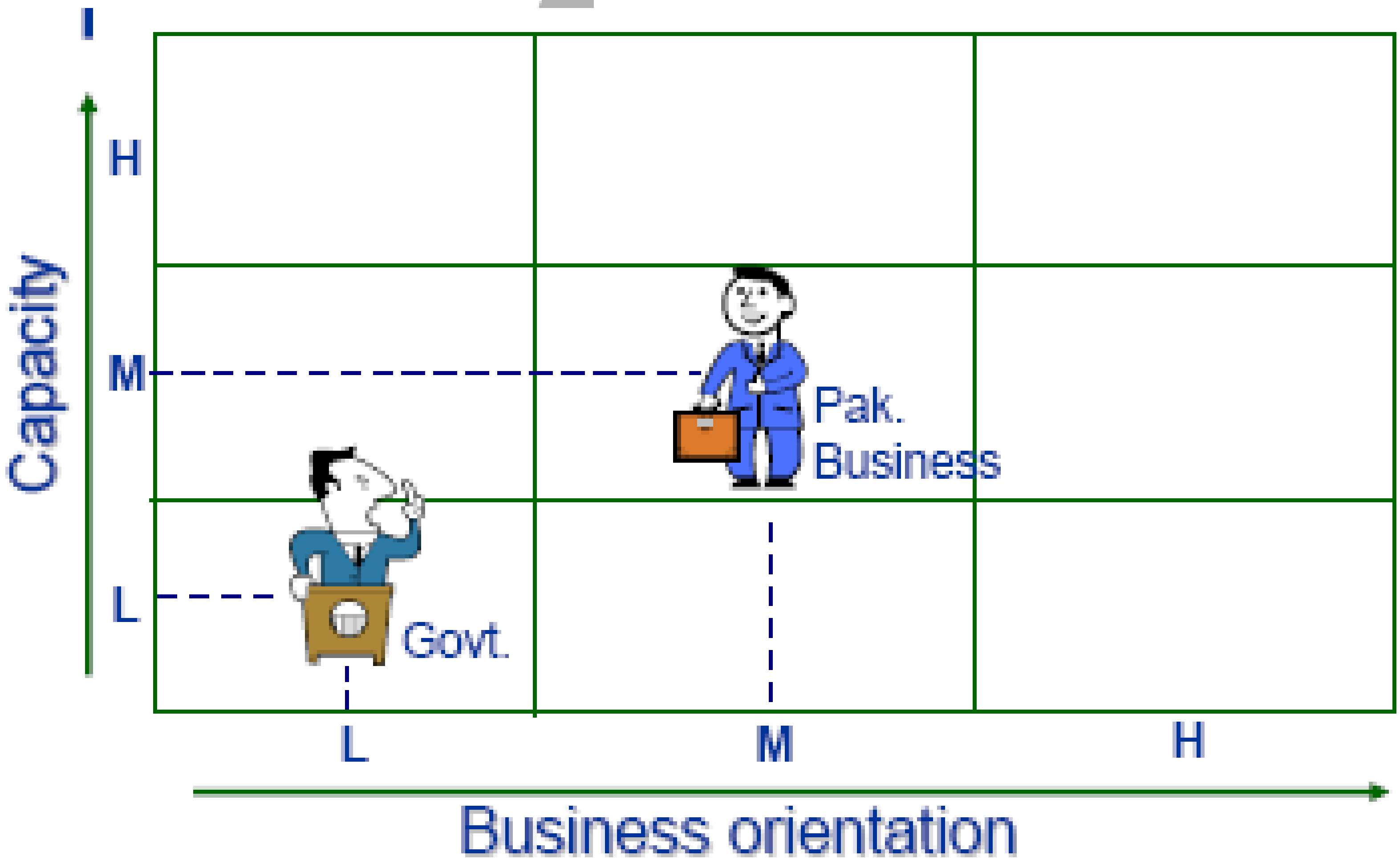
Resultantly Pakistan has a poor 'Adds-on Index' which implies fewer opportunities for Pakistan when buyers make
'where to buy decisions'

T2T holds the key to USD 6.7 bil in savings vs. the USD 0.5 bil through improved G2T…

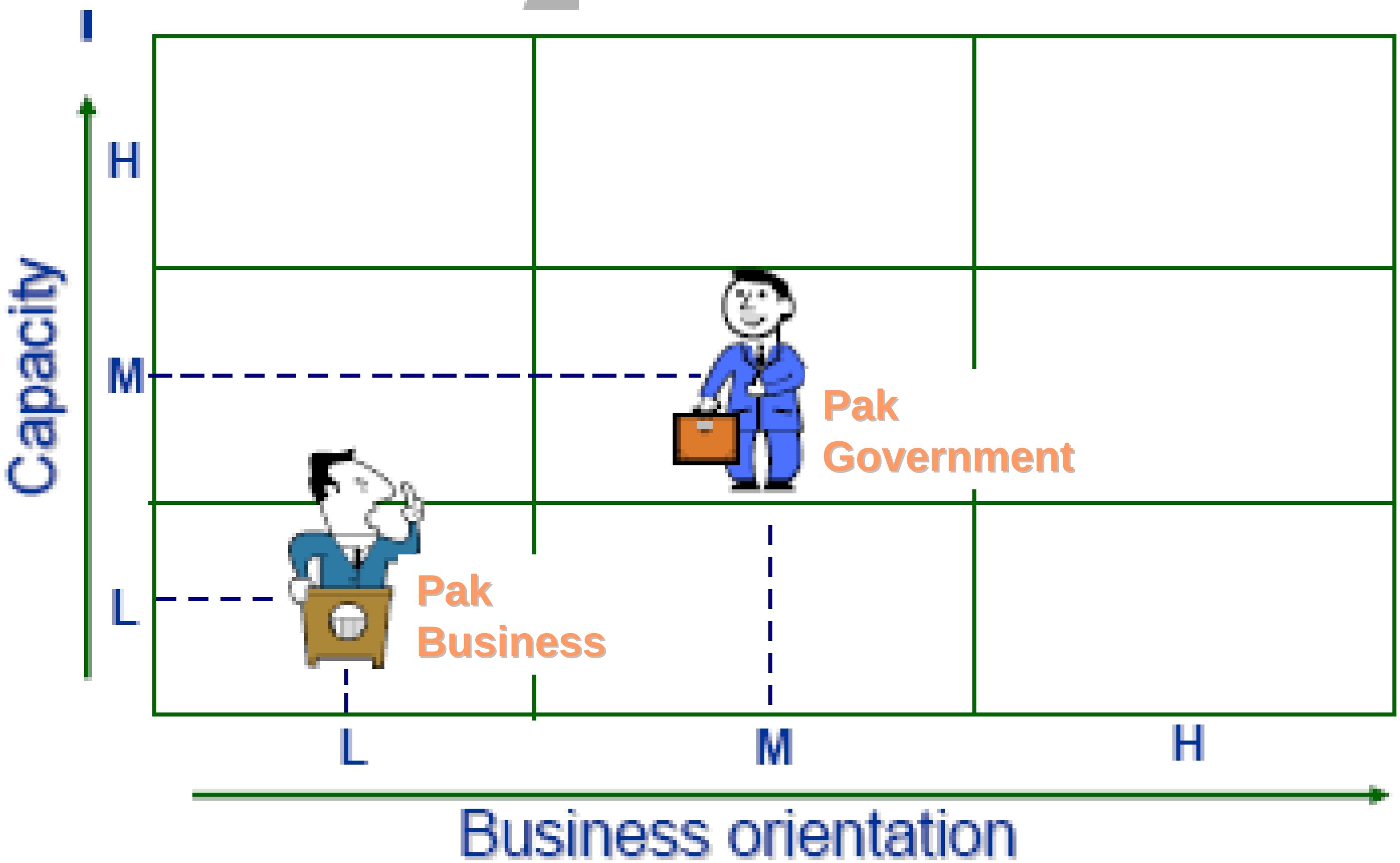
Distribution of Savings due to In-House Logitics*

	Potential Change in Index (division of savings per activity group)				Savings
	Warehousing	Transport - Shipping	Capital Cost Inventory	Adminstration	USD mil
Procurement		4	5	1	980
Production Planning	5		1	1	785
Sales Order Processing		1		3	392
Receiving	1				98
Warehouse	15		2	2	1,868
Production	1	1	1	1	392
Pick & Pack	5			1	589
Shipment and Export (see above)					470
Procedures, Management & Quality (total) loss	4	1	2	4	1,083
TOTAL					6,657

Basically, through the 90s GOP was catching up to understand the trade….



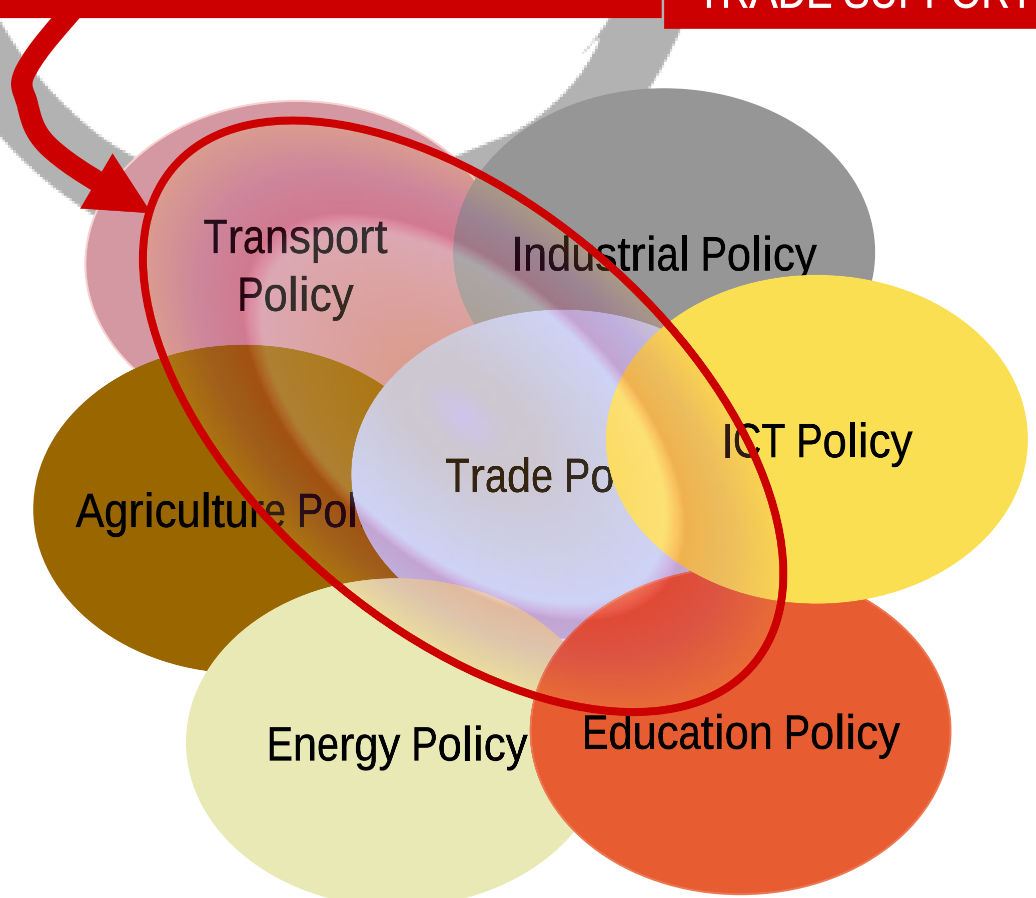
…now picture reversed—trade has to gear-up to take advantage of the NTCIP efforts…



...new T2T and T2G partnership lower TOTAL logistics costs from 29 % to 9% by 2012!

NTCIP Business Plan =

STRATEGIC PLAN FOR
TRADE SUPPORTING INFRASTRUCTURE & SERVICES



Think Global, Act Local—Pakistani Logistics plug into Global Trade

To reap the demographic dividends

- build the Human Resource and ICT capacity in the Private Sector to make-efficient and to enlarge Pakistan's Logistics Services Industry and to bring trade internal practices up to global standards
- Attract 'the demographic dividend generation' employment and businesses in airlines, shipping, freight forwarding, rail, roads, trucking, warehousing, ports, customs,………let the next Evergreen, Dubai Port World, Virgin, Emirates, emerge from Pakistan!

“Not only must the future be imagined,
it must be built.”

For further Information

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Sports Goods to Germany

Accumulated Cost Index	Pakistan	Turkey	Inida	China	Italy
Basic Price	85	111	98	64	140
Transport Costs	89	112	102	70	141
Transport risk costs	89	112	102	70	141
Duty	89	112	102	72	141
Inventory capital costs	100	121	112	83	143
Inventory costs	102	123	114	85	143
Obsolete costs	110	136	125	99	144
Delay costs	116	138	129	102	145
Sub-total I	116	138	129	102	145
Mark-up Wholesaler	156	187	173	138	196
Sub-total II	156	187	173	138	196
VAT	181	217	201	160	227
Sales price to retailer	181	217	201	160	227
Retailer mark up	391	467	434	344	489
Sales price excl. VAT	*391*	*467*	*434*	*344*	*489*
VAT	453	542	503	399	568
Consumer price	453	542	503	399	568

Leather Products to Denmark

Accumulated Cost Index	Pakistan	Turkey	India	China	Italy
Basic Price	88	114	101	66	132
Transport Costs	89	115	103	68	132
Transport risk costs	90	115	103	69	132
Duty	93	115	107	71	132
Inventory capital costs	107	124	118	82	134
Inventory costs	109	125	120	84	134
Obsolete costs	137	139	131	98	135
Delay costs	14	141	135	101	136
Sub-total I	**141**	**141**	**135**	**101**	**136**
Mark-up Wholesaler	190	191	182	136	184
Sub-total II	**190**	**191**	**182**	**136**	**184**
VAT	238	238	227	170	229
Sales price to retailer	**238**	**238**	**227**	**170**	**229**
Retailer mark up	447	448	427	320	431
Sales price excl. VAT	*447*	*448*	*427*	*320*	*431*
VAT	558	560	534	399	539
Consumer price	**558**	**560**	**534**	**399**	**539**