
Discussion

PAKISTAN'S POTENTIAL AS A TRANSIT TRADE CORRIDOR AND TRANSPORTATION CHALLENGES

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Introduction

From a strategic perspective, Pakistan lies at the hub of Central Asia, Middle East and South Asia providing the most economical strategic link between the resource affluent Persian Gulf / Central Asia and the energy scarce wider South Asia. Pakistan also offers the shortest route to China / CARs vis-à-vis Iran / Turkey. Land locked Afghanistan now entering the reconstruction / rehabilitation phase, also finds its way through Pakistan. Moreover, the deep water *Gwadar* port being linked with major urban centers through coastal highway as well as planned /under construction network of motorways /rail offers comparatively superior opportunities to countries like China, Afghanistan and CARs, not only for mutual trade but also for their trade with the rest of the world.

Pakistan's present transportation system is barely satisfying the current transport demands of domestic and regional /international transit trade mostly directed towards Afghanistan from Karachi port. With some semblance of peace returning to the region, the transit trade from our immediate as well as distant neighbors is likely to increase substantially putting added stress on transport demand – supply chain.

It is therefore imperative to examine the efficacy of Pakistan's transportation system to enhance its capacity to meet the challenges of potential transit trade through its geographical boundaries.

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Geo Strategic Construct – Significance of Pakistan

Since the dawn of 21st Century, Geo-economics has dominated politico-strategic orientations; securing of economic interests has forced alterations in political inclinations of the past. An apt example is US – China economic interdependence despite competing geo-political interests. Being the World's economically most dynamic region, the prospects of global peace and prosperity would be determined in wider South Asia. Russia's "Pivot to Asia" and dramatically enhanced relations with China coupled with her quest for friendly relations with regional countries like Pakistan is likely to have profound impact on this broader region. The central role will however continue to be played by /between the US and China; being deeply interdependent for economic growth as well as global stability.

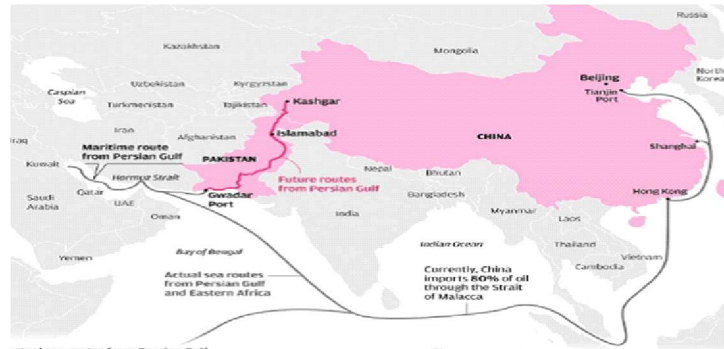
Pakistan – China Equation

When viewed from the perspective of Chinese growing concerns over US Asia Pivot Policy emanating perpetual threat to her international trade and energy /economic lifeline, Pakistan serves as China's insurance policy; it provides an alternative link, bypassing potentially hostile chokepoints. Also, the planned oil pipeline from Gwadar to China is likely to save a distance of over 7580 miles (Table 1⁴: 3626 miles vis-à-vis 11206 miles via Dubai – Shanghai – Central China); currently 80% of China's oil is imported through Straits of Malacca (Figure 1)⁵ and is likely to grow.

Table 1:
Saving in terms of Distances (Via Shanghai vs. Gwadar)

Ser	From	To	Via Shanghai (miles)	Via Pakistan (miles)	Saved (miles)	Saved (% age)
a	Central China	Middle East	11206	3626	7580	68
b	Central China	Europe	17801	10928	6873	39
c	Central China	Pakistan (Gwadar)	10601	3081	7520	71
d	Western China	Middle East	12537	2295	10242	82
e	Western China	Europe	19132	9597	9535	50
f	Western China	Pakistan (Gwadar)	11932	1750	10182	85

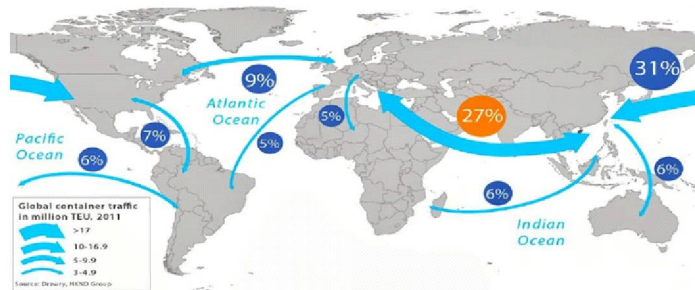
Figure 1:
Global Trade Route of China



The Completion of China Pakistan Economic Corridor (CPEC) is expected to reduce the travel distance by 50–85 % for more than 33 % of China’s current container traffic directed towards Europe, Middle East and Africa (Figure 2)⁶; 70 million containers with Europe alone⁷, trade estimated over USD 1 Trillion with these regions, details at Annexure A⁸. Pakistan’s share including 10-15 % Chinese trade would however depend upon its capacity to handle the volume of transit trade.

Figure 2:
Container Traffic of China

The Global Trade Of China – Container Traffic



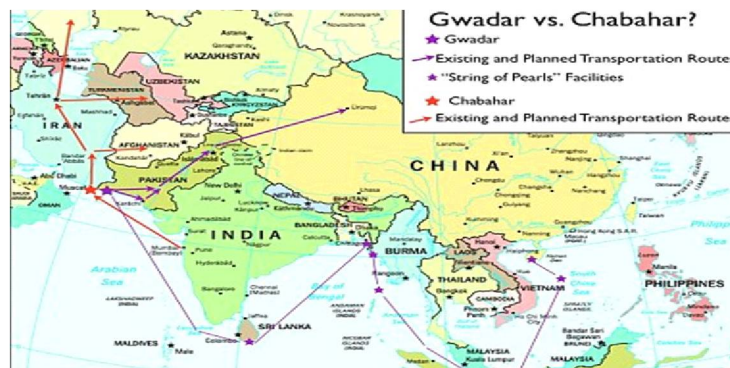
Indian Aspirations – Pakistan Sole Stumbling Block

Indian “Connect Central Asia” Policy⁹ with objectives of rebuilding Afghanistan into a trade hub, closer military cooperation and a proactive diplomacy exploiting interactions at forums like SCO and Eurasian Economic Community aims at directing all efforts to bypass Pakistan, making it irrelevant. Alleged Indian involvement in perpetrated terrorism in Balochistan affirms the clash of interests.

Indian potential transit trade of oil /gas through Pakistan is estimated around USD 10.4 to 10.7 Bn¹⁰; thus making it economically most viable route for flow of energy especially from CARs as well as Indian trade with CARs /Afghanistan. Trade via Iran may not be economically as viable /sustainable.

Figure 3:

Gwadar vs. Chahbahar



Chahbahar port of Iran being built and promoted by India as an alternative to Gwadar appears to be at a relatively disadvantageous position on three accounts (Figure 3¹¹); its close proximity to the choke point of Strait of Hormuz, shallow waters, land connectivity between Pakistan and China contrary to India – Iran and possibility of access to four CARs (except Turkmenistan) via Gwadar – CPEC (bypassing Afghanistan).

CARs – Relevance of Pakistan

Pakistan offers shortest land route to CARs for access to the Arabian Sea for their trade; 2600 km via Afghanistan as compared to Iran (4500 km) or Turkey (5000 km)¹². Moreover, CPEC further extended to Tajikistan, Kyrgyzstan, Kazakhstan and Uzbekistan offers yet another lucrative option bypassing Afghanistan; the route is operational since 2004 under a Quadrilateral Trade Agreement between China, Kyrgyzstan, Tajikistan and Kazakhstan¹³.

Actualization of energy projects like TAPI and TKPI for flow of gas to South Asia remains contingent upon peace and stability in Afghanistan; TKPI (Termez, Kabul, Peshawar, Islamabad) is an alternative project of TAPI with a length of 750 km (nearly half of TAPI: 1700 km) to reach Islamabad¹⁴.

Afghanistan

The bulk of Afghan trade including daily commodities / essential food items is through Pakistan; though mostly informal. After withdrawal of international security forces Pakistan's assistance for the reconstruction /rehabilitation phase would be inevitable. Notwithstanding Indian investment or desire for alternatives like Chahbahar Port of Iran, Pakistan virtually remains the most viable option for regional connectivity with Afghanistan.

Significance of Gwadar Deep Seaport

Gwadar deep seaport offers two way outlets to the markets of east /west and north /south. For China and Pakistan, it is convergence of overlapping /shared key interests of long term mutual economic development, regional economic integration, development of mutually beneficial infrastructure and joint efforts to counter common threats /adversaries.

In the global maritime picture, Gwadar figures out prominently as an alternative to Dubai (outside choke point of Strait of Hormuz

and shallow waters), proximity to Vital SLOCs and relevance to the new great game as part of the so called String of Pearls.

For China, it provides diversity, security and enhancement of energy supplies. Currently, oil tanker takes approximately 20 - 30 days to reach from Gulf to Shanghai, while through Gwadar, it is likely to take much lesser time (may be less than a week) and also avoid choke points like Straits of Malacca etc. In the strategic domain, the port is likely to serve China more than Pakistan, as it provides a land based oil supply port under a trusted ally.

Pakistan as a Consumer Market

Notwithstanding its significance for its near and distant neighbours, Pakistan is a promising market of over 196 Million¹⁵ people. On the one hand it needs energy to meet its industrial growth (largest imports are oil related items), while on the other it produces top quality food items, best fruits, sports items, medical instruments, textile, leather goods, cement etc just to name a few which are needed by the world at large.

Opportunities

- Pakistan's geo-strategic relevance; situated between energy /resource rich and energy starved regions and neighbourhood of emerging centres of global economic activity.
- Regional transit trade hub /energy corridor; Pakistan's gateway to potentially World's largest flow of commerce and trade. Economic integration with regional countries especially China and India is inevitable for mutual economic growth. Prospects of trade link with Iran, Afghanistan and CARs are also significant.
- Increased consciousness among regional countries towards enhancing regional connectivity and economic integration;

visible during summits of SAARC, SCO and other regional forums.

Impacts of Investment on Transportation Sector

High density transportation infrastructures and networks are often related to the highest levels of economic activity / development. Efficient transport system ensures better access to market, reduction in cost of production, more job opportunities, better quality of life, additional investments, etc, while inefficient system results in retarded economic growth, reduced (often missed) opportunities, rapid inflation and poor quality of life.

The investment in transportation sector is likely to have profound impact on regional trade especially when viewed from the perspective of Pakistan as a transit trade hub /energy corridor. Some estimates are reproduced below to highlight the quantum of impact¹⁶:-

- Xinjiang region is responsible for 80 % of China's total trade with Central Asia. Sea route via Asia Pacific to Europe costs around \$167 per ton and takes around 45 days; the Euroasian land bridge is likely to cut transport time by more than half and would cost \$110 per ton. Travel distance would be reduced from around 26000 kms to 6379 kms.
- Indian trade with Europe, Commonwealth of Independent States (CIS), Iran, Afghanistan and Pakistan is likely to cross \$ 500 Bn mark in next ten years. If only 20 % of Indian trade passes through Pakistan, it is likely to stager around \$ 100 Bn annually.

Transportation Challenges

Existing Transportation System

Pakistan has a fairly developed road transportation infrastructure in the form of intercity highways / motorways managed

by National Highway & Motorway Authority (NHMA), but a constantly deteriorating rail network. Successive governments deliberately shifted their focus to roads instead of improving rail network; possibly due to vested interests of few transport giants / mafia who managed this shift through their influence in the political power structure. Similar lack of focus is visible in the maritime and air transportation domains.

Challenges to Regional Economic Integration

- Regional instability continues to inhabit regional connectivity and economic integration. Impending disputes present a formidable challenge.
- Competing interests of global and regional players pose dilemma for Pakistan. Balancing relations in this competitive environment is challenging as often competing economic / political interests lead to covert hostility. Quest for political space in Afghanistan and Gwadar vs Chahbahar competition has added fuel to proxies in Khyber Pakhtoonkhwa / Balochistan.
- Pakistan's fragile internal security environment continues to hurt the state economically, depriving us of emerging opportunities. External meddling in domestic and regional affairs add complexity to the already intricate security matrix.
- Poor border management; informal /illegal trade run by mafias.
- Inappropriate transport mix; focus on road infrastructure than rail network.

Challenges – Road Network

- Poor quality /inadequate road transport services.
- Half of national highway network in low condition.
- Poor road safety record.
- Highly fragmented freight transport industry

- Poor truck fleet – mostly obsolete, underpowered, polluting, and grossly overloaded.
- Slower truck speed; 40 – 50 kmph for container traffic, half of that in Europe. Freight takes 3 – 4 times longer than international standards¹⁷.

Table 2:*Progress – Road Development (2009 – March 2014)*¹⁸

Years	Category		Total (km)
	Low Type (km)	High Type (km)	
2009-10	79850	180910	260760
2010-11	78597	180866	259463
2011-12	79655	181940	261595
2012-13	80515	182900	263415
2013-14	79635	184120	263755

Challenges – Rail Network

Perpetual shortage of locomotives has been the primary reason for decline in passenger and freight services over the years; other factors include over aged infrastructure and rolling stock, rise in fuel prices and subsidized rail fare. Some of the challenges¹⁹ confronting rail transportation network of Pakistan are summarized below:-

- Productivity of PR's freight service is about 1/8th of Chinese Railway, 1/3rd of Indian Railway and half of Thai Railway (a network of comparable size).
- PR continues to cross subsidize passenger services from freight services, resulting in non-competitive freight rates over road transport; Chinese freight service is 2 – 3 times cheaper than road.
- PR has low /stagnant share in transportation market – less than 10 % of passenger and 5 % of freight traffic.

Table 3:
Earning of Pakistan Railway (2007 – March 2014)²⁰

Years	Earning (Rs in Mn)	% Change
2009-10	21,886	-5.5
2010-11	18,740	-14.4
2011-12	15,444	-17.5
2012-13	18,070	17.0
2013-14 (July – March)	17,736	-

Table 4:
Passenger and Freight Traffic (2011/12 – 2012/13)²¹

Subject	2011-12	2012-13
Number of Passengers Carried (M)	41.1	42
Passenger Traffic (M kms)	16093	17388
Freight Carried Tonnes (M)	1.3	1.0
Freight Tonnes (M kms)	402	419

Challenges – Air Transportation

- Ever increasing competition in aviation industry.
- Fleet constraints exacerbated by operational issues / management.
- Passenger volumes are 1/10th of rail and 1/100th of road transport²².
- Lack of fiscal space retarding growth of PIA.

Strict governmental control has prevented PIA from operating on commercial lines, thus often resulting in huge operating losses and consequent negative growth.

Challenges – Ports and Shipping

Cargo handling capacity of ports is constantly on the decline due neglect at the policy level. Some of the challenges confronting maritime shipping /seaport cargo operations in Pakistan are summarized below:-

- Port charges – not competitive; still above international standards.
- Implementation of Pakistan Customs Computerized System (PACCS) has substantially reduced the customs clearance time from 4-5 days to less than 24 hours, in Karachi International Container Terminal (KICT)²³.

- Free storage period shortened from 7 to 4-5 days; container dwell time 5-6 days on the average still above international standard of 3-5 days²⁴. It reduces the capacity of container terminal to less than its due potential.
- Ports limited draft at 10 – 12 Ms, keeps latest /most efficient ships from calling²⁵.
- Performance of Port Operations – though improving, but still much short of international standards; would not be able to handle anticipated transit trade in the event of operationalization of Economic Corridor.

Table 5: Cargo Handled by Karachi Port and Port Qasim (Million Tonnes)²⁶

Years	Karachi Port			Port Qasim			Grand Total
	Exports	Imports	Total	Exports	Imports	Total	
2009-10	13,528	27,892	41,420	6,380	19,226	25,626	67,046
2010-11	12,843	28,589	41,432	6,657	19,511	26,168	67,600
2011-12	11,674	26,201	37,875	5,950	18,075	24,025	61,900
2012-13	12,150	26,700	38,850	7,047	17,754	24,801	63,651
2013-14 (July-March)	8,452	22,225	30,677	5,887	13,084	18,971	49,648

Some Common Challenges to Transportation Sector

- Long waiting hours and travelling time.
- Ever rising high cost of travel.
- Increased cost of doing business.
- Reduced competitiveness of country's exports.
- Constraints curtailing /retarding Pakistan's ability to integrate into global supply chains; which require just in time delivery.
- Poor performance of transport sector costs around 5 % of GDP each year²⁷.

Way Forward

Future Initiatives – Regional Connectivity and Trade Facilitation

Projects like National Trade Corridor (NTC) and CPEC are indicative of growing recognition at the policy level of inescapable linkage between efficient transportation system and sustainable

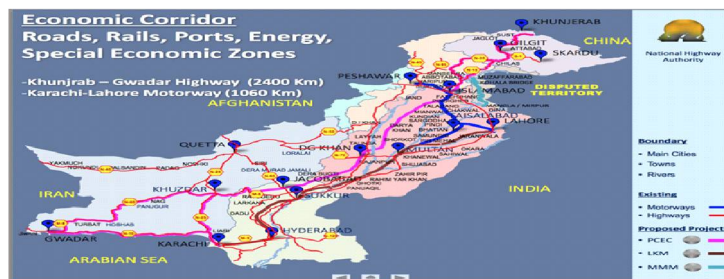
economic growth. GoP has set forth an ambitious development plan for transportation and logistics. In PSDP – 2013/14, the share of Transport and Logistics stands around 25%, while the requirement is 2-3 times more²⁸. Draft National Transport Policy (NTP) has been formulated by Ministry of Communication, though yet to be formally approved and implemented.

China – Pakistan Economic Corridor (CPEC)

CPEC connecting Kashgar /Xinjiang (China) with Gwadar / Karachi ports of Pakistan would serve two purposes; internationally it would be World's pivotal trade route to scale down global transportation distances between continents, while domestically it would help in invigorating Pakistan's stagnant economy. This would provide a link between long distance partners Russia /China /CARs and ME / Europe; India, Iran and Afghanistan can also benefit through lateral links with CPEC. China is expected to spend USD 30 – 40 Bn in a span of next seven years²⁹.

Figure 4:

*China - Pakistan Economic Corridor*³⁰

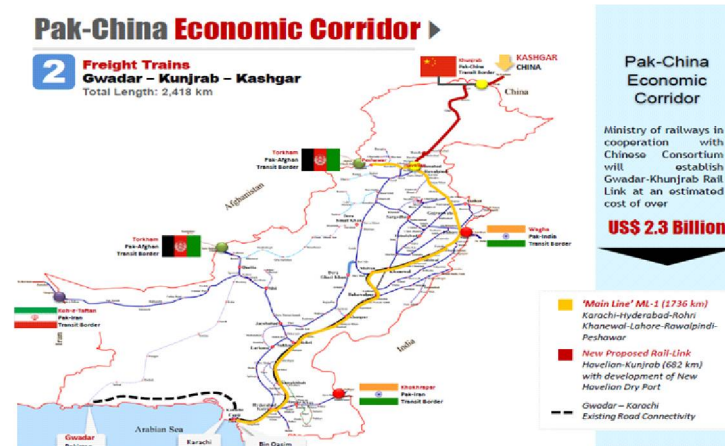


CPEC would essentially have three tiers; at the first tier Kashgar and Gwadar would be connected through highways / motorways, while at the second tier through establishment of rail network and at third tier linked via energy pipeline and establishment of an oil refinery at Gwadar. Freight terminals planned along the corridor will facilitate logistic industry /trucks carrying freight, while economic

zones /industrial parks would essentially target local products / industry and services.

Figure 5:

*Freight Rail Link*³¹



Out of China's annual container trade of 225 Bn containers, around 30 % (70 Million containers) of this trade is with European nations and around 6 % with Africa³². Even if Pakistan gets 10 % share of container flow to European nations (70,000 containers annually), Pakistan's logistic industry and transport sector would get a huge boost.

Diplomatic Maneuver

- Maintain strategic balance in relations with US and China.
- Capitalize on rapprochement with Russia and offer trade via CPEC through a trilateral agreement between China – Russia – Pakistan. Capacity building of PR, acquisition of heavy machinery, revival of steel mill /industry is suggested areas of mutual cooperation.

- Build upon Quadrilateral Trade Agreement between China, Kyrgyzstan, Tajikistan and Kazakhstan (operational since 2004) and expand mutual trade relations through exchanges between business communities of respective countries. Offer for transit trade and access to Arabian sea as well as India through Pakistan be extended to these countries.
- Efforts be made to formalize trade with Afghanistan; trade facilitation /customs offices be established on all formal crossings and trade through these points should be incentivized – subsidize the customs duty /other taxes.
- Manage pending disputes with India till their resolution to create environment for mutual trade for the benefit of people on both sides. India should be encouraged to trade with CARs /Afghanistan through Pakistan and import energy from CARs /Middle East through Pakistan; this will create her stakes in stability of Pakistan.
- Explore avenues with Iran – seek points of convergences.
- Gwadar is not a military outpost of China; misperceptions be cleared loudly and squarely. It is a mutual economic cooperation venture; FDI from other countries like Oman, UAE, Turkey, etc., be encouraged as it would help in clearing misperceptions as well as creating healthy competitive environment.

Transportation Sector

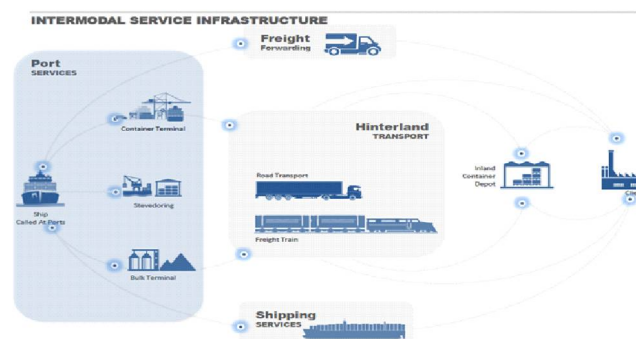
- Undertake long term perspective planning for periods beyond 10-15 years.
- Investment must focus on capacity building /development of new transportation infrastructure, enhancing operational efficiency of transport system and extending access to distant markets, domestically as well as regionally.
- Transportation projects must be analyzed critically and prioritized from the perspective of their urgency vis-à-vis affordability /fiscal space; these are often vulnerable to

miscalculations and mal-investment. Dead investments driven by purely political considerations (bumper sticker projects) often turn out to be counterproductive – bridges to nowhere; hence must be discouraged ruthlessly.

- Speedy completion of CPEC be ensured; for continuity in policy such mega initiatives must be given legal patronage through act of parliament.
- Capacity building of the transport sector /services to handle the potential transit trade from China and other neighbours be ensured; expected potential is around 70,000 – 100,000 containers annually if only 10 % of Chinese trade with Europe is routed through Pakistan.
- Develop intermodal transportation system on modern lines (Figure 6), gradually shift from age old fragmented logistic industry to modern state of the art efficient, fully integrated logistic system; bridge gaps and establish linkages within different transportation modes. Well reputed international firms can be contracted – public-private partnership is perhaps the solution to fill fiscal gaps.
- Curtail cost of travel to reduce the cost of doing business; this will make country's exports competitive in international market.

Figure 6:

*Intermodal Transportation Infrastructure*³³



- Enhance accessibility; farm to market roads and warehouses /cold storage to save losses in agriculture sector – perishable goods /vegetables /fruits.
- TOT based projects be preferred; China, Turkey, Russia and Japan may be engaged for development of transportation sector, especially rail network.

Road Network

- Improve the condition of national highway network through a prioritized and phased programme in line with the priority set for National Trade Corridor /CPEC.
- Revamp freight transportation industry on modern lines through public-private partnership; large scale logistic enterprise with integral /integrated transport services is need of the hour.
- Initiate program for progressive replacement of obsolete truck fleet, offering loans and incentives. Comparatively newer inventory of trucks will not only be environmental friendly, but will also reduce transportation times of freight, closer to international standards.

Rail Network

- Enhance the quantity /quality of locomotives to meet the demand of passenger and freight services.
- Take steps to gradually phase out and replace over aged infrastructure and rolling stock.
- The policy of cross subsidy from freight to passenger services should be done away with to make freight rates more competitive with road transport. PR should take major initiatives to make freight service commercially viable.

Air Transportation

- PIA should either be privatized or allowed to operate on commercial lines with minimum governmental control so that it can compete in the aviation market. It will not only be able to meet its operating expenses but also earn and improve its fleet, instead of becoming a public sector liability.
- Management of PIA should be cut to size to reduce operational losses.

Ports and Shipping

- Improve cargo handling capacity of Karachi port and Port Qasim and create space by removing containers awaiting disposal beyond 100 days; figures are fairly large.
- Make port charges competitive with international standards.
- Reduce customs clearance time to less than 12 hours at all terminals of Karachi, Port Qasim and Gwadar.

Gwadar Seaport

- Speedy operationalization of Gwadar seaport and connectivity with hinterland to exploit its full potential.
- Develop maritime industry: prospects of industrial zone dedicated to seafood be explored near Gwadar, Karachi and other coastal areas. The potential for export of value added seafood products is phenomenal; hither-to-fore untapped.
- Parallel work on pipeline project between Gwadar and Xinjiang including establishment of oil refinery at Gwadar be initiated.
- Efforts be made to expedite other energy pipeline projects i.e. IPI and TAPI /TKPI.

Miscellaneous Recommendations

- Concerted efforts be made at all levels to defeat militancy and improve internal security through capacity building of law

enforcement agencies – conducive environment is inevitable for promotion of regional connectivity and economic integration.

- Initiate steps towards progressive development in restive regions of Pakistan like FATA and Baluchistan to include exploration of fossil fuels; this economic activity will lead to prosperity and stability in these areas.
- Prudent fiscal management and stringent punitive measures against corruption will ensure transparency – this will attract FDI and encourage international business community /Pakistani diaspora to invest in Pakistan.
- Capitalize on political awakening of middle class and youth bulge.
- Say NO to bumper sticker projects built at exorbitant /prohibitive costs – build consensus through debate between leadership.

Conclusion

The paper has endeavored to underline Pakistan's transit trade potential being a regional hub /economic corridor and has suggested few policy guidelines at various levels and for different modes of transportation. Pakistan offers the most economic strategic link between the resource affluent and the energy scarce regions, in addition to providing the shortest trade route. In changed geo political cum strategic environment, opportunities are knocking at our door. With some peace retuning to the region, the transit trade from our immediate as well as distant neighbors is likely to increase substantially. Pakistan's present transportation system is however barely enough to meet the demands of regional /international transit trade.

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Annexure A

CHINA'S TRADE WITH REGIONS /COUNTRIES (USD BILLION)							
Ser	Region /Country	2011			2012		
		Total	Exports	Imports	Total	Exports	Imports
a	Afghanistan	0.234	0.23	.004	0.469	0.464	0.005
b	India	73.91	50.54	23.37	66.47	47.68	18.80
c	Pakistan	10.56	8.44	2.12	12.41	9.28	3.14
d	Iran	45.1	14.76	30.34	36.47	11.6	24.87
e	Iraq	14.27	3.82	10.44	17.57	4.91	12.66
f	Israel	9.78	6.74	3.04	9.91	6.99	2.92
g	Jordon	2.77	2.51	0.26	3.26	2.96	0.28
h	Lebanon	1.48	1.46	0.026	1.71	1.69	0.02
i	Syria	2.45	2.42	0.026	1.2	1.19	0.011
j	Turkey	18.74	15.61	3.12	19.10	15.58	3.51
k	Palestine	0.049	0.048	0.001	0.041	0.04	0.001
l	Bahrain	1.20	0.88	0.32	1.55	1.20	0.35
m	Kuwait	11.30	2.13	9.18	12.56	2.09	10.47
n	Cyprus	1.15	1.12	0.03	1.24	1.10	0.14
o	Oman	15.87	0.99	14.88	18.79	1.81	16.98
p	Qatar	5.89	1.20	4.69	8.48	1.20	7.28
q	KSA	64.32	14.85	49.47	73.31	18.45	54.86
r	UAE	35.12	26.81	8.31	40.42	29.57	10.85
s	Yemen	4.24	1.10	3.14	5.56	1.96	3.60
t	Africa	166.3	73.08	93.24	198.6	85.31	113.3
u	Europe	700.8	413.6	287.2	683.1	396.4	286.7
v	Latin America	241.4	121.7	119.7	261.3	135.2	126.1
w	North America	494.4	350.1	144.3	536.3	380.1	156.2