

PAKISTAN GATEWAY TO EMERGING MARKETS



Presented on the eve of **CFCFA Board Standards Review Meeting**,
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SCHEME OF PRESENTATION



- About Pakistan
- Importance of Pakistan Borders
- PIFFA Key Objective with ADB , PIFFA/FIATA Diploma Course
- CAREC – CAREC in Pakistan & its Key Projects
- Practices & New Knowledge in Trade Logistics Facilitation
- Midterm View , Work Program , Collaboration with Private Sector
- Key issues for guidance by SOMs
- Development
- Experience
- Business Requirements
- Issues / challenges / Overview



Pakistan

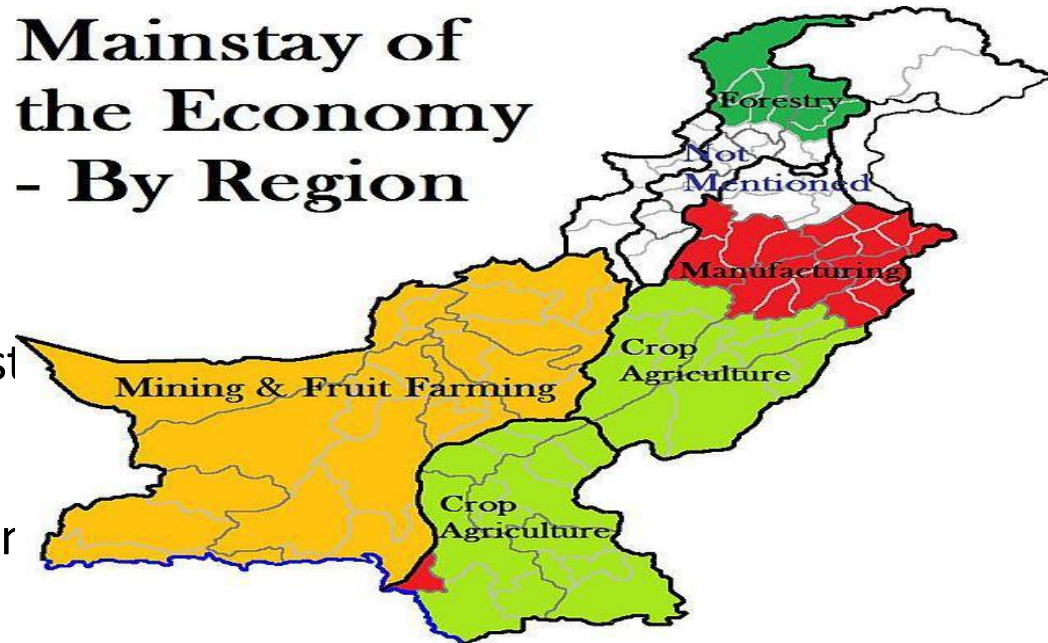
- Population – 180 Million +
- Area – 796095 sq. km
- Provinces – 04
- International Airports : 07 namely, Karachi, Islamabad, Lahore, Peshawar, Quetta, Multan and Sialkot
- Location South Asia, bordering Arabian Sea in the south, India on the east, Iran & Afghanistan on the west and China in the north.
- Land Boundaries with neighbors ... 7,266 km (Afghanistan 2,430 km, China 580 km, India 2,240 km, and Iran 909 km).



Pakistan

- Coastline 1,046 km
- Climate 4 Seasons, dry desert, temperate in northwest; arctic in north.
- Elevation Extremes Lowest point: Arabian Sea 0 m, Highest point: K-2 (Mount. Godwin Austin - 8611 meters)
- Form of Government Parliamentary
- Capital Islamabad
- Pakistan is the world's 4th largest producer of rice.
- Pakistan Army are the 6th largest in the World in terms of active military & largest among Muslim countries.

Mainstay of the Economy - By Region





KARACHI .. THE COMMERCIAL HUB & TRANSIT TRADE CENTRE OF PAKISTAN





WHY ARE KARACHI PORTS ARE IMPORTANT?

- Nearest ports providing access to Afghanistan and CARs
- Connected to relatively developed road network
- A cosmopolitan city, offering services trade and transit cargo operators
- Port Handling Terminals efficiently managed by private sector



CURRENT SITUATION AT THE THREE BORDER STATIONS

(Torkham, Chaman and Wahga)

CUSTOMS COMPLEX TORKHAM BORDER





TORKHAM BORDER CROSSING POINT

- Gate-way to land-locked Afghanistan and Central Asia
- Biggest Transit Station for Afghan Transit (about **75%** of cargo flow via Torkham)
- Main supply route for NATO/US forces stationed in Afghanistan

CUSTOMS AREA CHAMAN BORDER





CHAMAN BORDER CROSSING POINT

- Gate-way to Central Asia via Afghanistan
- Second biggest transit station for Afghan Transit Cargo
- Supply route for NATO/US forces stationed in Afghanistan
- Nearest Land Customs station to Sea-ports of Karachi & Gawadar and is expected to be the “HUB” of commercial trade to/from CARs, Iran, China and Far East

CUSTOMS COMPLEX AT WAHGA BORDER





WAHGA BORDER CROSSING POINT

- Pakistan is the Most Economical Transit Route for Northern India
- The two emerging economies of Pakistan and India are yet to tap commercial advantages due to security issues

PIFFA key partner of ADB on CPMM study



- PIFFA - ADB collaborate for 'CAREC Transport & Trade Corridor Performance Measurement & Monitoring' (CPMM) study.
- PIFFA signed MOU with ADB to assist in its CPMM study on December 26, 2011
- PIFFA team has successfully submitted required data and extend full cooperation in this Time/Cost study

Pakistan Transit Routes



Pakistan becoming Asia's trade, energy and transport corridor



CAREC

- Central Asia is on the move. Rapidly rebuilding the ancient transport and trade routes that once connected Eurasia, the region is poised to recapture its place as a center of trade and commerce. Since 2001, almost \$28 billion of CAREC-related investments have upgraded key regional links, modernized trade infrastructure and systems, and boosted energy supply and cooperation. Rich in natural resources, surrounded by opportunity at the heart of Eurasia, and committed to regional cooperation, the CAREC countries are preparing for a new phase of growth and prosperity.

CAREC in Pakistan



- Since joining the CAREC Program in 2010, Pakistan has been actively looking for new ways to overcome barriers to growth and to place Central Asia at the heart of trade and commerce in increasingly integrated global markets.
- Pakistan is also improving its national road corridors, which serve as routes to the Middle East and South Asia for the country's northern neighbors. These corridors will eventually be part of a streamlined land transport network stretching from Azerbaijan, in the west, to the People's Republic of China in the east, and north to Kazakhstan and beyond.
- Pakistan's road network is connected to [CAREC Corridor 5](#), which opens a vital trading link between landlocked Central Asian nations and the country's warm water ports of Karachi and Gwadar on the Arabian Sea.

Key Projects



- As of 2016, more than \$1.28 billion has been invested in Transport and Trade in Pakistan through CAREC, the goal being to establish a modern transport and energy infrastructure that will allow the region to fully benefit from its vast physical and human resources.
- Pakistan's location at the crossroads of Central, South, and Southwest Asia makes it ideally suited to become a hub of economic activity. Improved connections with the Middle East and the transport corridors that Pakistan can provide through its sea ports, could drive trade, commerce, and renewed prosperity.



Best Practices & New Knowledge in Trade Logistics Facilitation

Sector Progress

CAREC Senior Officers Meeting held on 25th October 2016 in Islamabad established following strategic targets:

- (i) establish competitive corridors across the CAREC region
- (ii) facilitate the efficient movement of goods and people through the CAREC corridors & across borders, and
- (iii) develop sustainable, safe, user-friendly transport and trade networks.

The trade facilitation (TF) component covers trade and border crossing improvements, customs reform and modernization; coordinated border management; national single window development; and trade-related sanitary and phyto-sanitary (SPS) reforms and modernization.

Best Practices & New Knowledge in Trade Logistics Facilitation.



- The trade facilitation program is implemented through coordinating bodies such as the CCC, the CAREC Federation of Carrier and Forwarder Associations (CFCFA) and the SPS ad hoc working groups.
- The CCC is comprised of heads of Customs Authorities of CAREC member countries. It serves as a regional forum to address common customs issues among the 10 CAREC participating countries and to introduce innovations and share knowledge on international best practices.
- Major objectives of CFCFA are to facilitate transport, trade and logistics development in the region and to advance the interests of road carrier, freight forwarder, and logistics service provider associations that are its active members. There are currently 22 member associations.

Midterm Review (MTR) of CAREC 2020 Strategy.



- The MTR report highlighted challenges to facilitate trade. Compared with the baseline year 2010, the 2015 CPMM annual report shows that:
 - (i) the time to cross borders has increased;
 - (ii) The costs incurred at a border crossing have declined only marginally;
 - (iii) the nominal costs incurred in traveling a corridor section have increased; a
 - (iv) speed of travel is relatively
- Unchanged. In addition, due to the small-sized investments and inter-agency and inter country coordination challenges, trade facilitation projects are often given lower priority than large infrastructure projects. Trade facilitation involves close coordination of multiple countries and agencies across various sectors, and existing institutional coordination mechanisms may not be adequate. The work on SPS, for example, is currently supported by ad hoc working groups, while work on national single window development can require the involvement of up to a dozen different agencies. Customs cooperation alone has proved insufficient to address key challenges.



Work Program

Operational and Organizational Effectiveness.

Customs Cooperation Committee .

Institutional support. The CCC remains a stable and cohesive coordination mechanism and all members continue to support the 5 priority areas.

- 1) simplification and harmonization of customs Procedures
- 2) risk management systems
- 3) joint customs control (JCC)
- 4) regional transit &

5) ICT modernization. In the last few years, technical assistance projects focused on strengthening customs reform efforts and supporting initiatives that push forward the CCC agenda along the five priority areas. (CCC = Customs Co Operation Committee).

• **Integrated Trade Facilitation..**

- Improvement of border services is being addressed through four RIBS (Regional Improving Border Services) projects in Kyrgyz Republic, Tajikistan, Pakistan, and Mongolia.
- The RIBS project in Pakistan is a part of the comprehensive Integrated Transport Trade Management Systems project. The expected outcome is reduced cross-border processing time for goods and cargo at CHAMAN , TORKHAM , and WAGHA BCPs (Border Crossing Points) and increase Pakistan's trade with neighboring countries.



Collaboration with the Private Sector

- CFCFA remains an active partner in the implementation of the CAREC trade facilitation program. CFCFA members continue to provide primary data for the Corridor Performance Measurement and Monitoring exercise. Its 22 active members is expected to expand as the CFCFA work plan for 2017 includes enlistment of new members and recruitment of new enterprises into their national associations to broaden participation of the private sector in CAREC



Key Issues for Guidance by the SOM

- **More investment and technical assistance projects for trade facilitation.** Four CAREC countries (the Kyrgyz Republic, Mongolia, Pakistan and Tajikistan) are implementing RIBS projects. **(Regional Improvement of Border Services)** These investment needs can be supported by ADB through new projects using the RIBS and RUST modality. Support from SOM (Senior Officials Meeting) is needed to encourage countries to participate in RIBS and RUST. (**Rust = Regional Upgrades of Sanitary and Phytosanitary**).

Developments



- PAKISTAN can boost its food exports to CAREC countries as it now leads this economic bloc for next five years and as the China Pakistan Economic Corridor opens up a lot of fresh opportunities.
- Food exports to Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are expected to rise as they have start realizing that trading with Pakistan is easier and strategically important in the CPEC era,” says a senior official of Trade Development Authority of Pakistan.
- “The potential market is much larger,” says an official of Rice Exporters Association of Pakistan. “But we need to boost our Basmati production (which is in more in demand in CAREC region) and we need stronger branding. **As an information , Dubai-based Indian traders continue to import Pakistani rice in bulk and resell the same as Indian rice to Iran and other CAREC countries.”**
- In Fiscal Year 15, Iran had bought \$9m worth of Pakistani rice mainly long-grain, aromatic super Basmati.

Developments



- Pakistan entered this market aggressively and now our total food exports to Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan exceeds \$50m,” says an official of the Ministry of Commerce citing FY16 statistics.
- Iran also started imports of kinnow (Orange) from Pakistan which shall be regular in future too.
- If it is done, Pakistan will be able to export as much as 80,000 tones of kinnow (Oranges) to Iranian markets & to CAREC region as well every year. Free movement of goods throughout the CAREC region using road and rail transport is expected to become easier — Thanks to CPEC projects.



Experience.



- **Tariffs and Non-Tariff Barriers**

Stakeholder interviews revealed that Tariffs and non-Tariff Barriers are not viewed .Stakeholders identified transport, absence of banking channels and language as major impediments to developing trade with CAREC countries, in particular the CARs.

- **Transit Trade**

Pakistan's transit corridor plans need a realistic reappraisal. Insecurity in Afghanistan is only one part of the problem. The other part is development of roads and revival of rail infrastructure in Pakistan, as well as the development of warehousing and distribution points along the corridor and becoming part of the TIR Carnet convention in order meet the fundamental requirements of multi-modal logistics. Iran and Turkey have taken the necessary steps for routing CARs cargo through their countries and already more than 24 million tons of the CARs external trade cargo moves along the TRACECA corridor.

Business Requirements.



- **Policy recommendations**

- **Trade facilitation**

Establish language schools and provide subsidized language instruction in Russian, Turkish and Persian to students at school, college and university level and technical and managerial persons from the textile and engineering industries.

- Pro-activity by Commercial Counselors and Trade Sections of Pakistan embassies in the Central Asian Republics through detailed market reports on key products, advice to trade associations in Pakistan
- Arranging Pakistan-product trade fairs and visits by CAREC country trade/industry association delegations to visit Pakistan
- Negotiate friendly visa regime for business persons
- Develop a subsidy program to facilitate registration of surgical products in Iran and Kazakhstan as done for pharmaceutical products
- Tax incentives to attract MNCs for investing in licensed manufacture and export of white goods and auto parts from Pakistan
- Initiate dialog for resumption of direct air links between Pakistan and CAR capitals. At present, most of the CAR capitals are not directly connected by air, for example travelers from Dushanbe to Kabul (less than one hour flying) connect via Dubai (three hours flying time each way.) & travelers from Pakistan (Lahore) to Azerbaijan (Baku) is approx 3 hour flying but connect via Dubai (approx six hours flying time each way.) Government may explore the feasibility of developing Islamabad or Lahore as the regional hub.

Business Requirements.



Transport and Transit Trade

- Provide tax breaks and tariff reductions for inviting multi-national companies to investment in multi-modal transport companies and import of necessary transport equipment.
- Promote public-private partnerships with partners from China, Kyrgyzstan and Kazakhstan for such multi-modal transport operations may be explored for activating the Quadrilateral Transit Treaty.
- Urgently examine the restoration of Pakistan Railway's cargo operations. Reduced freight costs will give an impetus to exports of steel products to Afghanistan in particular.
- Develop facilitation measures for corporatization of road transport companies.

Banking

- Initiate dialogue with Iran for national currency swap as payment mode for trade between Pakistan and Iran to overcome the US dollar and other payment irritants to Pakistan-Iran trade
- Perform CAREC trade finance training, in particular for managers of the National Bank of Pakistan, which already has a presence in Azerbaijan and Kyrgyzstan.
- State Bank of Pakistan should consider developing a mechanism to monitor efficient deployment of CAREC Trade and Development Banks' funds with a focus on developing intra-CAREC small and medium enterprise (SME) trade.

Business Requirements.



STAKEHOLDER REVIEW

Interviews were conducted with officials of TDAP WTO Cell, National Trade and Transport Facilitation Committee (Ministry of Commerce), Discussions were held with Federation of Pakistan Chambers of Commerce and Industry (FPCCI). Background information and views were received from the Karachi Chamber of Commerce and Industry (KCCI), Pakistan Ready Made Garments and Exporters Association, PIFFA and members of the Pak-Iran, Pak-Uzbekistan, Pak-Kazakhstan committees of the FPCCI.

Findings of the survey are tabulated below:-

100% of respondents said that transport was a major hurdle in developing trade .

100% of respondents said that **language was a major barrier.**

100% of private sector respondents advised that banking was a major hurdle in regard to Iran and the CARs.

100% of these respondents also said that their main reason for not exploring CAREC markets was **“lack of information of those markets”**.



Business Requirements.

TRANSPORT .

This sector therefore merits a detailed analysis. With the benefit of hindsight it can be seen that transit trade through Pakistan was seen as an economic imperative by the land-locked CARs (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) .

The Pakistan transit route offered the Central Asian countries a further powerful economic justification..

Moreover, for these countries transit through Afghanistan to Pakistani seaports also promised the possibility of economic independence, allowing diplomatic space in their dealings . Such a transit route, if developed for energy transportation, would enable the CARs to access customers and markets, if necessary, without seeking the intervention of western multinational interests.

Multi-Modal Transport .

One of the reasons for the success of Iran and Turkey's ability to grow their transit transport capability is enhanced capacity in "multi-modal" or „Intermodal" transport.

(* **Note:** It is possible that some of these transit times are overly optimistic. Stakeholder interviews revealed that customs procedures in Iran and the Central Asian states are arbitrary, borders are closed for no reason, sometimes for days on end and documentary requirements are changed with no prior intimation. Exporters from Pakistan are reluctant to use the rail option in view of the extra cost. Iranian railway does not reach up to the border crossing, consequently goods from Pakistan are loaded on to Iranian trucks at the Taftan border and dispatched to the railway station at Zahedan.)

Business Requirements.



Interest Appeals in Trade and Logistics Facilitation.

Turkey operates a fleet of more than 40,000 long haul trucks, it has upgraded and digitized all its border crossing points, in 2008 it issued more than 735,000 TIR carnets (22% of all carnets issued globally) and has issued US\$ 35 billion worth of guarantees for Turkish hauling companies to facilitate their cross border movement. (Source: The Union of Chambers and Commodity Exchanges of Turkey.)

Iran has the advantage of a better working railway system than Turkey, where less than 5 percent of all cargo moves by rail. However, while Pakistan has upgraded port facilities in Karachi, Port Qasim and Gwadar in anticipation of handling the Central Asian cargoes, its planning and investment has not kept pace with key aspects required for multi-dimensional efficiency of transport operations.

A study researched for the Pakistan Trade and Transport Facilitation project showed there were approximately 456 companies in Pakistan involved in freight forwarding (337 in Karachi, 73 in Lahore, 46 in all the other cities). Of these, only 50 companies were total solutions providers, having an aggregate investment of less than US\$ 8 million and working capital of approximately US\$12 million; their market share of 46% and estimated annual turnover of 515,000 TEUs. (source: International Asset Management Co. Ltd., "Pakistan's International Freight Forwarding Sector")

It would be optimistic to assume that Pakistan can compete as a global logistics player with such few companies operating with a minimal capital base. Moreover, in recent years Pakistan has raised its import tariffs for transport equipment to even higher levels, this does not create a climate conducive to investment in the logistics sector.

OVERVIEW



Recommendations recorded during interaction by officials from the Pakistan Institute of Development Economics (PIDE) with public and private sector representatives ,indicate there is a long way to go for implementation of CAREC trade facilitation plans:

- Removal of regional NTBs . (Non Tariff Barriers).
- Harmonization of customs tariff regimes and simplification of procedures
- Adoption of non discriminatory customs procedures which act as major trade barriers.
- Trade facilitation measures particularly at the Border Transit Points.
- Improving transportation system in CAREC region
- Create one common visa zone for all Central Asian countries (for instance in the context of EurASEC) and reduce visa fees for non-CIS members .
- Improving transit trade infrastructure of smaller economies in CAREC region
- **Visa facilitation for Businessmen / Seminar / Conference Attendees to be offered by Member States on priority or on arrival if possible.**
- Concrete action to be initiated for the promotion of intra regional trade
- Financial support/credit lines offered by institutions/bank particularly for SME companies



OVERVIEW

In a nutshell, the situation can be summarized as follows. There is an annual import market in excess of US\$ 500 million within CAREC of surgical instruments and textile made-ups of products in which Pakistan has exports in excess of US\$ 750 million dollars annually. But Pakistan's exports of these products to CAREC are under eleven million dollars. It is like ships passing in the night, proximate but unaware of each other's presence. Above all this suggests a knowledge gap that needs to be addressed. If there is an opportunity to exploit, the market will find its own solutions and come back to the policy makers for necessary facilitation measures.

Thank You for your attention.