ROAD FREIGHT TRANSPORT SECTOR & EMERGING COMPETITIVE DYNAMICS

TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME

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ROAD FREIGHT TRANSPORT SECTOR AND EMERGING COMPETITIVE DYNAMICS

The study was commissioned under Component 1 of the European Union (EU) funded Trade Related Technical Assistance (TRTA-II) programme. The TRTA II programme is implemented by the United Nations Industrial Development Organization (UNIDO) in collaboration with the International Trade Centre (ITC) and World Intellectual Property Organization (WIPO). The Component 1 is about trade policy capacity building and is implemented by the International Trade Centre (ITC).

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INTRODUCTION

The transport sector plays a pivotal role in enhancing the global competitiveness of an economy and as well as in contributing to the efficient functioning of the supply chain, domestically. Efficient transport and telecommunication network reduces production and transaction cost in poor regions[1] which serves as stimulus for domestic commerce. There is a positive correlation between global trade competitiveness and an efficient transport sector.[2]

Growing economic interdependence through an increasing volume and variety of cross-border transactions has resulted in increasing the importance of the transport sector. The Transport sector has the ability to potentially raise the economic growth of developing regions and lead to a shift of production activities to these countries. Commonly considered as one of the driving forces of economic growth and social development, Transport is central and functions as an enabling mechanism for any economy.

Strong logistics and transportation services can enhance the competitiveness of an economy while, inefficient supply chains through high transport and logistics costs could impede export and import flows which may increase cost for firms, especially those competing in the export market.

The Logistics sector is estimated at 14% of the global GDP (10-30%).Direct transport costs are between 30-40% of all logistics costs; logistics costs are typically 10-30% of final product costs.[3]

Pakistan has a functional transport sector that accounts for about 11 percent of its GDP, 17 percent of Gross Capital Formation and 6 percent of employment.[4] The transport sector consumes 35% of the total energy annually and accounts for approximately 15% of Public Sector Development Projects.[5] However, much of the economic gains that can be reaped from an efficient transport sector are lost in Pakistan's case due to overall poor performance of the sector. According to some estimates the country suffers a loss of 8.5 percent of GDP annually.[6] In other studies this loss ranges between 4-6% of GDP annually.[7]

Pakistan's logistics mostly rely on the road network. According to the World Bank statistics, 96% of the national freight traffic is carried on road networks.[8] This is mainly due to the failure of Pakistan Railways' freight operations, which have recently been resumed after a halt of more than two years. This market distortion has led to an overemphasis on trucking in Pakistan and despite an outdated fleet trucking is the backbone of freight transport in Pakistan.

Freight journeys via road normally take twice as long as they would in Europe, mainly due to an outdated fleet and poor and unreliable infrastructure. The productivity of Pakistan Railways freight operations is also only one-eighth and one-third of China and India, respectively.[9] This constrains Pakistan's ability to integrate into the global supply chains, which require just-in-time delivery. Another factor contributing to the inefficiency of the Pakistani transport system is the fact that the local markets are not fully integrated.

The Pakistan trucking industry is extremely fragmented, with a large number of small operators and very few large and medium size operators. Freight rates in Pakistan are one of the lowest in the

[1] C Gannon and Z Liu, "Poverty and Transport" Mimeo, The World Bank, Washington DC, 1997

[2] Study on the State of Domestic Commerce in Pakistan, Ministry of Commerce, 2007

[3] United Nation Economic Commission for Europe, 2009. Joint Trade and Transport Conference on the impact of Globalization on Transport, Logistics and Trade: The UNECE Work. www.unece.org/fileadmin/DAM/trans/doc/2009/itc/Conf_01_pesut.pdf

[4] World Bank "Pakistan Transport Sector Overview"

[5] Pakistan 2025, One Nation One Vision. Planning Commission, Government of Pakistan.

[6] Government of Pakistan, Annual Plan 2006-07.

[7] WB. Pakistan 2025, One Nation One Vision, Planning Commission, Government of Pakistan.

[8] Strategic Environmental, Poverty and Social Assessment of Trade and Transport Sector Reforms. Report No 71812-PK, World Bank, 2012.

[9] Pakistan Framework for Economic Growth, 2011.Planning Commission Government of Pakistan

world. In order to maximize profits in this background the truckers resolve to overloading which in turns has a high cost because of the infrastructure degradation.

The biggest operator in the trucking industry is in the public sector, namely the National Logistic Cell (NLC). It has a fleet of 800 Prime Movers/Heavy Vehicles. It was formed in 1978 to perform Crises Management Tasks during natural climates and unforeseeable situations including strikes, shortages, port congestions *etc*. NLC maintains a ready capacity to perform Strategic Tasks and in support of the Armed Forces of Pakistan, particularly the army, during state of emergency and war. However, today it is a major transportation company that is competing with private competitors. NLC has a market share of 10% in the freight transport of the country being the biggest and most resourceful fleet operator.

The trucking sector in Pakistan is still an informal sector and credible information on the sector is hard to find. There is a discrepancy in the number of total trucks in Pakistan with different studies quoting different figures. There were a total of 223,152 registered trucks as of 2011, while the Government of Pakistan estimates that only 93% of these are actually plying the roads of Pakistan the rest of the 7% being inactive due to poor condition. Another study quotes that Pakistan has 293,000 commercial cargo trucks operating.[10] The discrepancy of figures is reflective of the fact that there is lack of accuracy in the available data due to the informal nature of the trucking sector. There is also lack of research on the freight transport sector of the country.

Pakistan has been facing poor markets from decades and inefficiencies in these have resulted in hampering the growth of the economy as a whole. About 30% to 40% of agricultural production is wasted due to inefficient farm-to-market channels.[11] Much of this waste is due to of an inefficient, outdated and poorly equipped transport sector.

The World Bank in its latest report on “Ease of Doing Business” has placed Pakistan at the 128th position, way ahead of South Asia’s biggest economy, India that is at 142nd slot, and Bangladesh that has been assigned a distant 173rd spot. This standing alone can be improved to some extent by removing inefficiencies hampering the smooth functioning of the transport sector. Pakistan has improved its ranking in trading across borders by 4 points from 112 in 2014 to 108 in 2015.[12]

High road density for any country is an indicator of prosperity and development Pakistan has a road density of 0.33Km/Sq with a total road network of around 263,942 Km.[13] Road density in Pakistan is among the lowest in the region (33%) compared to 133 percent in India and 150 percent in Siri Lanka. In Pakistan road transportation is the most important mode of transportation, Roads handle approximately 96% of the total freight traffic (Government of Pakistan, 2010). The National Highways and Motorways network although constitutes 4.2% of the total road network but carries almost the entire freight traffic *i.e.* 96%. The busiest route is the north-south route of N-5 highway that is the longest route comprising of 1,760 Km and runs from Karachi to Torkhum. This route carries 65% of inter city traffic and serves 80% of Pakistan’s urban population and contributes to 80-85% of Pakistan GDP (Pirzada, 2011).

Pakistan has a coast line of 1000 Km and two major ports, port Karachi and port Qasim, that handle 95% of all international trade in the country. Pakistan has 14 dry ports that cater for all external trade. Pakistan’s third and most important port is being built at Gawader.

[10] Pakistan Transport Plan Study, NTRC/JICA 2005.

[11] Pakistan’s Framework for Economic Growth, 2011, Planning Commission, Government of Pakistan.

[12] www.doingbusiness.org/rankings

[13] Pakistan Economic Survey, 2014-15.

STRUCTURE OF ROAD FREIGHT IN PAKISTAN

The trucking sector carries 96% of total freight traffic (Government of Pakistan, 2009). There are 223,152 registered trucks out of which 93% are estimated to be operating on roads. 65-70% of total truck fleet consists of single-or double axel trucks. According to National Highway Authority,[14] that is responsible for managing the National Highways carrying bulk of freight services (96%), there were 1,36000 registered commercial trucks (3% of total vehicles) plying on Pakistan roads in 1995. Since there is no adequate truck manufacturing industry in Pakistan, types and makes of these trucks varied. Bodies were mostly manufactured in Pakistan by local Industry not following proper dimensions. Bed Ford (53%), Hino (23%), Nissan (16%), Isuzu (5%), other (3%) are common types of trucks. According to a study carried out by NHA, composition of Commercial vehicles determined in 1995 is presented below:

Table 1: Composition of trucks by axle configuration

	Two Axle	Three Axle	Three Axle Trailer	Four Axle	Five and Six Axle	Total
Numbers	53864	16805	944	5076	1503	78192
% age	70	21.5	1.2	6.5	1.92	100

The study revealed that there is a trend in the commercial market to use multi axle trucks instead of 2-axle. In 1982, the share of 2-axle was 96.5% and was reduced to 69% in 1995, whereas the share of multi axle trucks increased from 4% in 1982 to 31% in 1995.

Axle load study conducted by the NTRC in 1995 indicates that 88% of trucks are loaded above the designed limits of 8.2 tons and 43% above the axle load limits of 12 tons. The prime reasons for the overloading as indicated in the study are the dominant presence of 2-axle trucks *i.e.* 69% in the overall truck fleet presently plying on Pakistan national highways.

Various studies have indicated that 2 axle trucks cause most damage to road structure because of load distribution mainly on the rear axle.

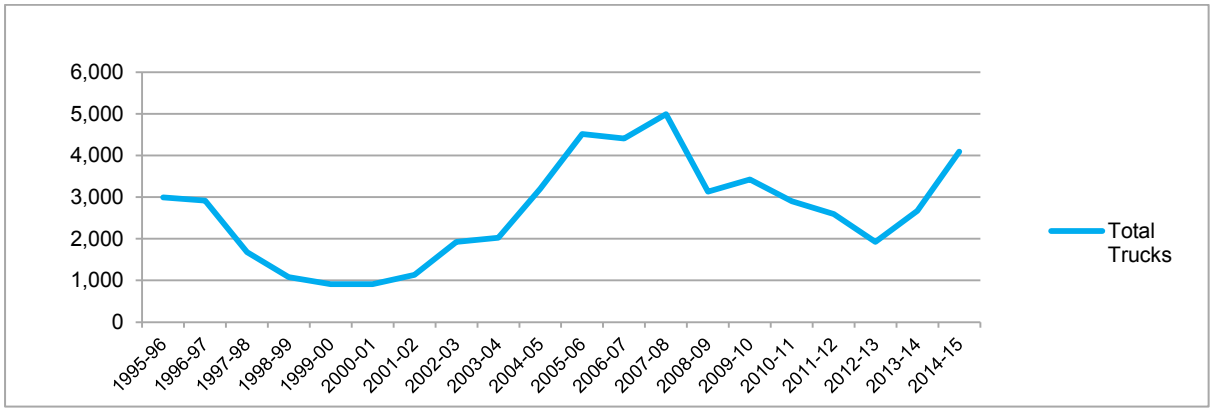
Pakistan Automotive Manufacturers Association (PAMA)

Trucks

According to PAMA *i.e.* an association of auto manufacturer, the total number of trucks manufactured from 1995-96 till 2014-15 are of 53,460, the data of total trucks produced show an increasing trend post 2012-13.

[14] www.nha.gov.pk

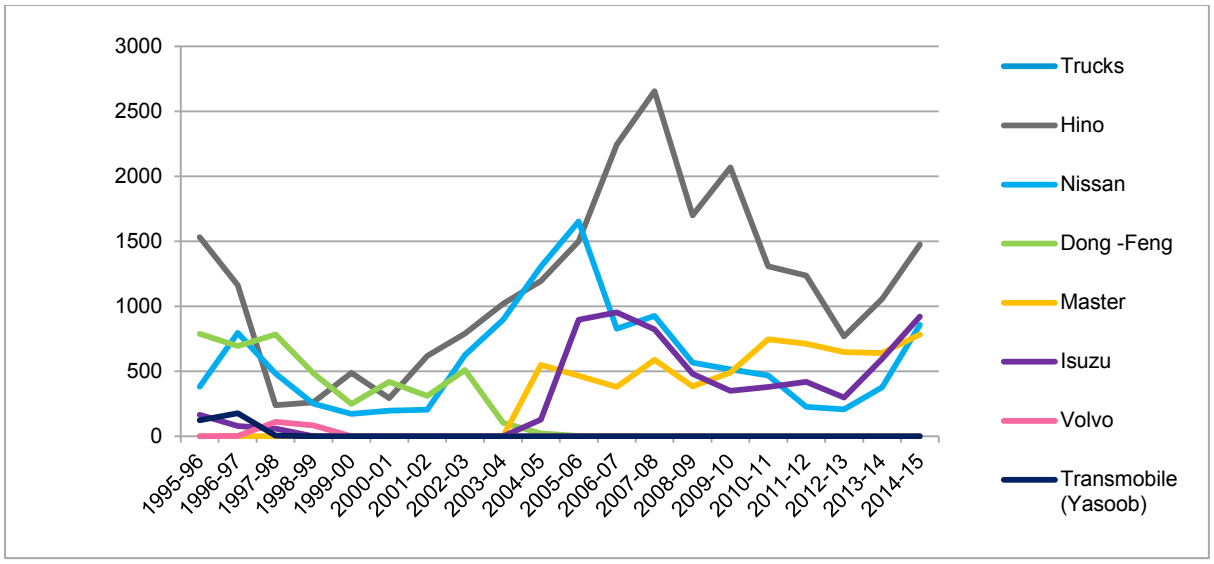
Figure 1: Trend of total trucks produced



Source: PAMA Historical Data

The PAMA historical data lead to the witness the emergence of major market players on the manufacturing side in the following order: Hino, Nissan and Master. A breakdown of the trucks produced by make can be depicted in the following chart:

Figure 2: Trucks by make in Pakistan



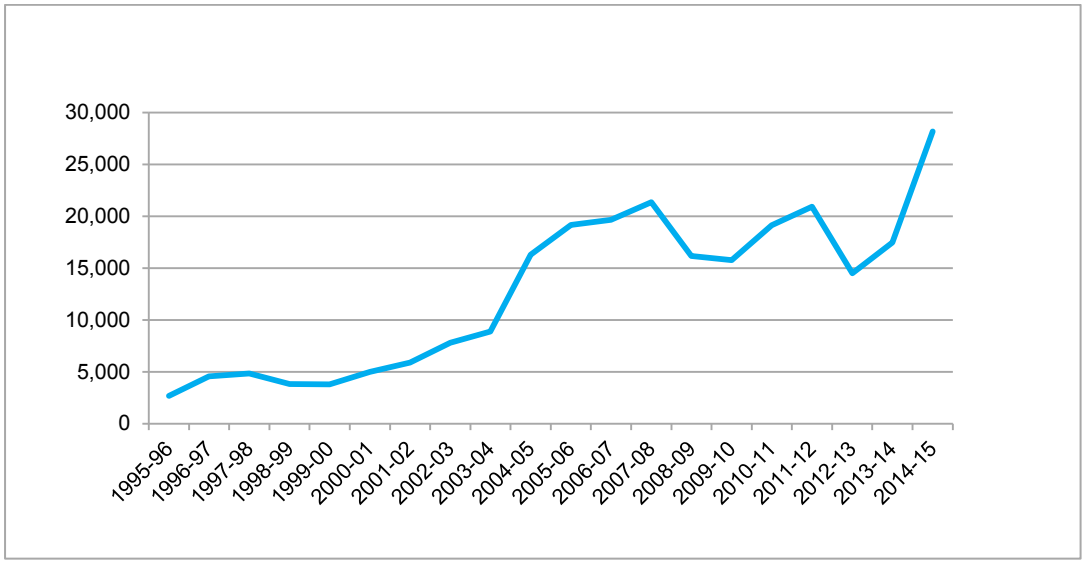
Source: PAMA Historical Data

Hino is the market leader with over 60,000 vehicles (trucks and busses) on the road. HinoPak has gained 50% market share followed on by Isuzu, Master and Nissan. Some of the market players like Volvo and Dong-Feng have ceased production respectively in 1999 and 2009.

Less than Truck Load (LTL)

According to PAMA historical data, total number of Less than Truck Load manufactured in Pakistan from 1995-96 to 2014-15 are 255,936. The table below on the total production shows a visibly increasing trend.

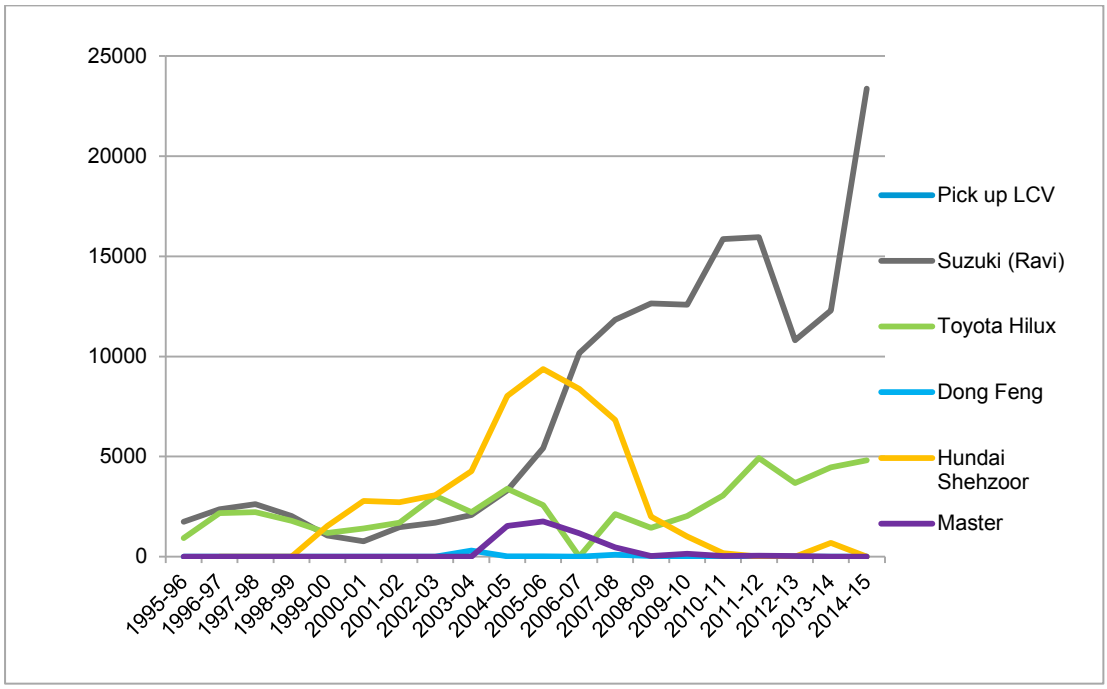
Figure 3: Total production of light commercial vehicles in Pakistan



Source: PAMA Historical Data

The data by make shows that Suzuki (Ravi) is the clear market leader followed by Toyota Hilux and Hundai Shehzoor.

Figure 4: Production of light commercial vehicles by make in Pakistan



Number of registered trucks

According to Pakistan Bureau of Statistics historical data of registered number of trucks in the country is given in the table below, while the historical data on the number of Trucks operating on the road is given by National Transport Research Center, Ministry of Communication.

Table 2: Registered number of trucks in Pakistan

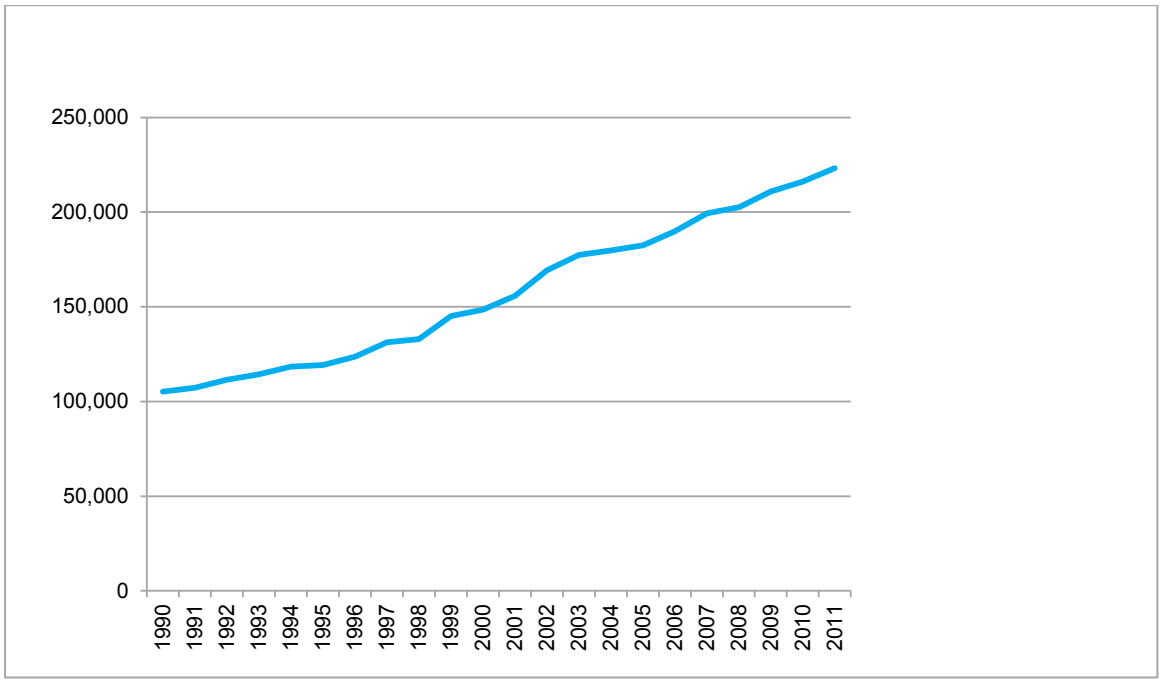
Calendar Year	Registered Trucks	Calendar Year	No of Trucks on Road (000 Numbers)
1990	105,245	1991-92	75.8
1991	107,171	1992-93	84.2
1992	111,391	1993-94	92.0
1993	114,394	1994-95	98.3
1994	118,389	1995-96	104.2
1995	119,174	1996-97	110.3
1996	123,658	1997-98	117.1
1997	131,322	1998-99	121.0
1998	132,895	1999-2000	127.4
1999	145,111	2000-01	132.3
2000	148,569	2001-02	145.2
2001	155,793	2002-03	146.7
2002	169,274	2003-04	149.2
2003	177,478	2004-05	151.8
2004	179,727	2005-06	151.8
2005	182,516	2006-07	173.3
2006	189,950	2007-08	177.8
2007	199,447	2008-09	181.9
2008	202,574	2009-10	200.5
2009	210,944	2010-11	209.5
2010	216,119	2011-12	212.3
2011	223,152		

Source: Pakistan Bureau of Statistics and NTRC, Ministry of Communication.

The number of registered vehicles and the number of vehicles on road have increased over the decade as reflective from the data above, however it's not a steep increase

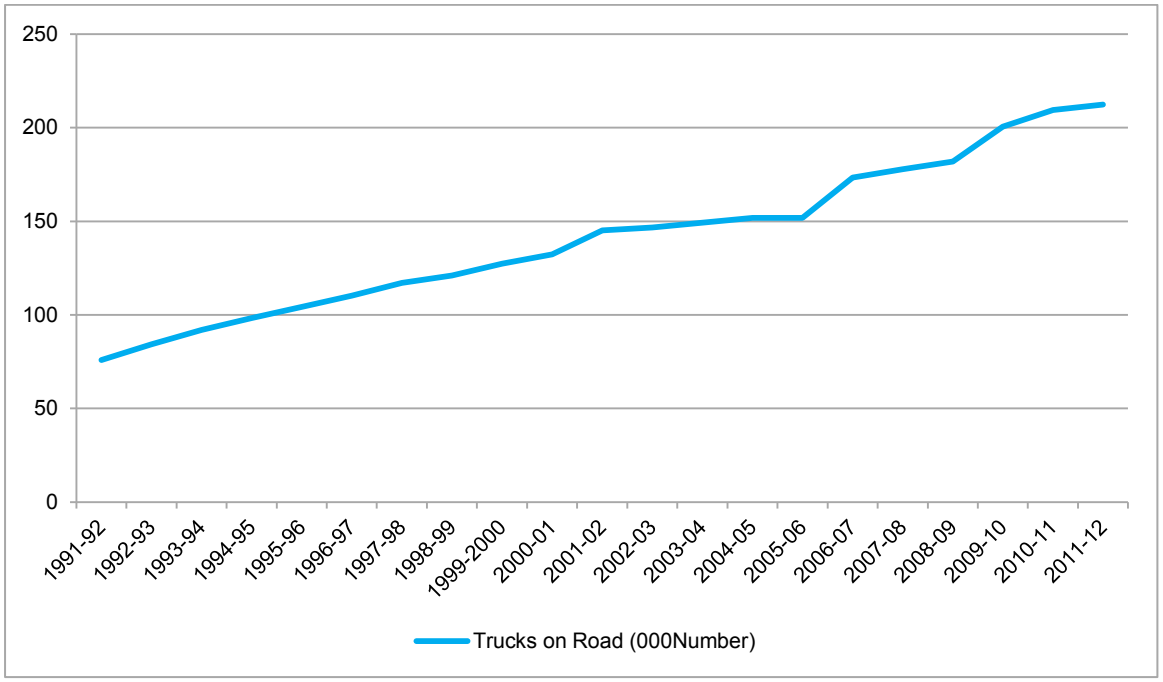
The data shows an increasing and steady trend in the number of registered vehicles and the number of vehicles operating on the road.

Figure 5: Increase of registered trucks in Pakistan



Source: Pakistan Bureau of Statistics

Figure 6: Total number of trucks on road in Pakistan

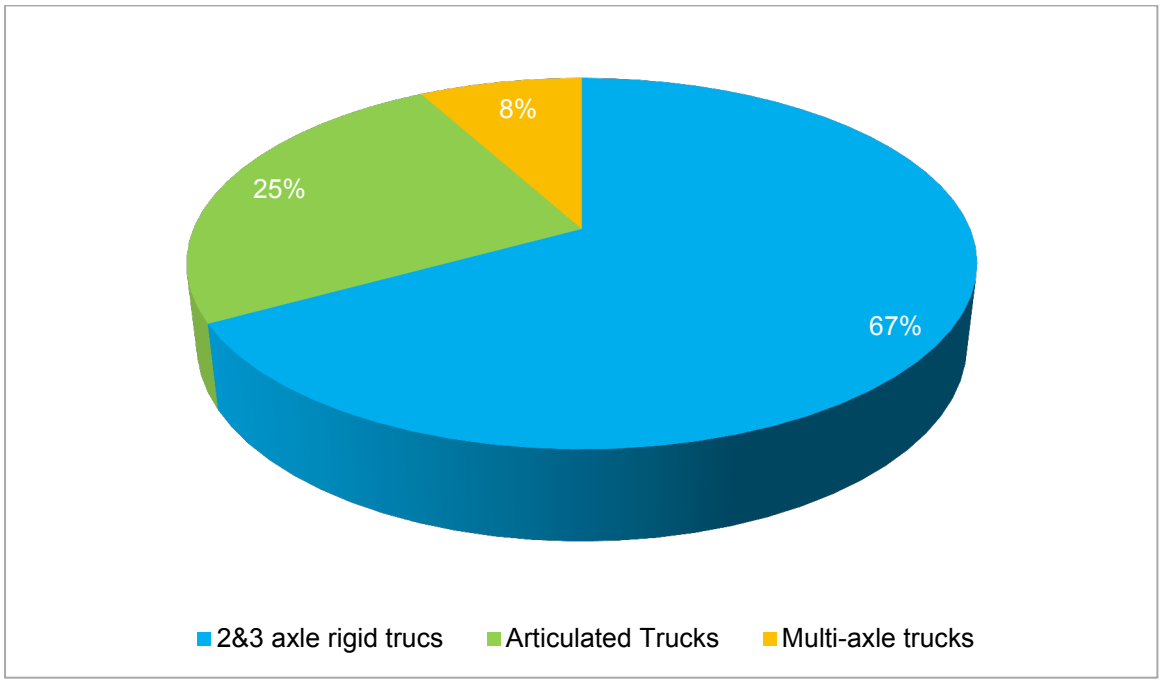


Source: NTRC, Ministry of Communication

Fleet composition and technology

The technology of the entire fleet consists of rigid suspension of obsolete and old Bedford Trucks out of which: 67% are 2 and 3 axle rigid trucks, 8% articulated, and 25% multi axle trucks.

Figure 7: Pakistan trucks' fleet composition



Source: Road Freight Strategy Paper, EDB, 2006.

With this composition the sector is not ready for reaping the opportunities knocking on Pakistan's door in the form of the Pak-China Economic Corridor and integration with other international trade routes. Pakistan's reliance on an obsolete and inefficient fleet has consequences on the road infrastructure as well. A major challenge in the road freight sector is the fleet composition. Pakistan formulated a Trucking Policy in 2007 which unfortunately has not been implemented till to date. The Trucking Policy 2007 recognized that the 2 and 3 axel vehicles which dominate the fleet composition were often assembled in backstreet operations with no regard to minimum quality standards. There is a parallel informal manufacturing sector operating in Pakistan. A manufacturer in informal sector costs PKR 1 to 1.5 million using second hand materials while a second hand imported trucks that meet Euro II specifications costs about PKR 7 to 8 million. These informally enhanced trucks are not only harmful for environment but also consume more fuel and damage road infrastructure.[15] Any number cannot be assigned to represent such trucks due to non-availability of data. However, these trucs are not a rare sign and are easily spotted on the road. One of the aims of the Trucking Policy was to institutionalize the industrial estates for truck assembly in an effort to check truck body making in the informal sector, where bodies are built onto Hino or Bedford chassis with little emphasis on adhering to safety or quality standards. Trucking was recognized as an industry in January 2008, in a bid to better regulate a highly unregulated sector and to provide access to credit for the stakeholders.

Pakistan fleet is predominately outdated by several decades and run on underpowered engines that has implications on the logistic performance (World Bank, 2006). High import tariffs on high capacity multi-axle trucks imported trucks protect the local manufacturers producing low capacity and low-powered trucks. Other factor contributing to the plight of the trucking sector is the informal manufacturing and enhancements of second hand truck. Their low price makes them the preferred choice for the sector stakeholders despite compromises on safety and quality standards.

The Trucking policy of 2007 recognized the need for a Central Data Repository (CDR) which was to consolidate the vehicle registration data from different Provinces, Federally administered areas, the Azad Jammu and the Kashmir thus ending the discrepancy among the available data. This CDR was not only to manage the vehicle registration data but also to document other information regarding the vehicle. However, the CDR has not been formed till to date. It can prove to be the first step in regulating the informal trucking sector in Pakistan.

Trucking companies in Pakistan

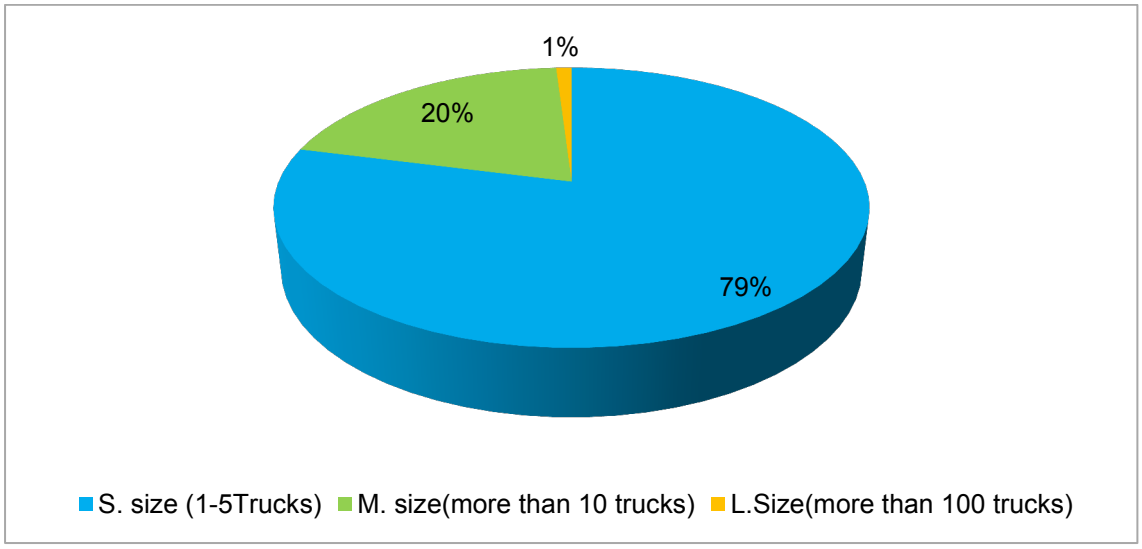
Pakistan has a free market highly competitive at all levels, with low cost. Indeed, 79% are owner operator with 1-5 vehicles, 20% are fleet owners with more than 10 vehicles, and 1 % is composed of large companies with more than 100 vehicles.[16]

As evident Trucking companies are primarily small sized (1-5 vehicles), unregistered and non-taxpaying. These are players of an informal sector that depends on freight brokers and subcontracting to large companies to secure business.

[15] Revitalizing Industrial Growth in Pakistan. Trade, Infrastructure and Environmental Performance. World Bank Group.S

[16] Freight Transport for Development Tool Kit, DIFID

Figure 8: Trucking companies in Pakistan by size



Large fleet operators

National Logistic Cell:

The National Logistic Cell (NLC) was created in 1978 by the Government of Pakistan managed by the Armed Forces. It was created to perform Crises Management Tasks during natural calamities and unforeseeable situations including strikes, shortages, port congestions *etc*. The NLC maintains a ready capacity to perform Strategic Tasks and in support of Armed Forces of Pakistan, particularly the Army, during state of emergency and war. However, today it is the biggest fleet operator in Pakistan with 10% share of total freight market.[17] It has a fleet of 800 Prime Movers/Heavy Vehicles and a huge infrastructure of support facilities all over the country including Trans Freight Stations and Workshops. The NLC operations in freight are extended in transportation of crude oil, palm oil, wheat, fertilizer and other multiple segments of dry cargo.

The NLC has developed in the freight service segment of the market a sophisticated transportation and distribution mechanism. It offers warehousing and distribution services to its clients throughout the country. Better Fleet then the market also allows NLC to transport safely and timely to any destination in the country. An important segment of NLC's Fleet comprise of the liquid cargo bowsers. A lion's share (56%)[18] of domestic crude oil production is lifted by NLC from oil fields to the refineries located at Karachi and Rawalpindi.NLC also specializes in transportation of edible oil and is engaged in the transportation of oil from terminals at Port to production units across country. The NLC also has a fully computerized monitoring system installed in all its vehicles.

The NLC enjoys edge over its smaller private competitors through various preferential treatments of the Government of Pakistan. Afghan Transit Trade comprises of a significant share of imports at the ports of Karachi. The NLC is the only authorized carrier of these goods from Karachi to Torkhum (last point on the Pak/Afghan border from Khyber Pukhtonkhwa province) or Chuman (last point on the Pak/Afghan border from Baluchistan province) by the Government of Pakistan. However, the NLC is allowed to hire vehicles from the private sector as and when needed.

This anti-competitive practice leaves the private trucking companies in an already demand deficient market at a comparative disadvantage.

[17] Rethinking Connectivity as Interactivity. A case Study of Pakistan, MPRA_paper_34049.pdf.
[18] nlc.com.pk

During the self-conducted survey the three relatively bigger trucking companies in the private sector complained about the preferential treatment given to NLC. They were of the view that they are on an inherent disadvantage when it comes to getting order from Government Enterprises as the latter prefer using the NLC, being a Government body.

Private large fleet operators

There are very few large fleet operators in Pakistan, during the self-conducted survey, we have come across three relatively large Fleet operators namely Bashir Siddique Logistics (BSL) having more than 500 trucks,[19] Agility Pakistan having a fleet of 400 modern trucks[20] equipped with GPS tracking facility and Shaheen Freight services operating a fleet of 250 vehicles[21] with a tracking system installed. There are many emerging Fleet operators with less than 50 vehicles. Pakistan's private logistic market is increasingly becoming more organized, although it still represents a very small percentage it is moving in the right direction.

Freight rate

The trucking sector is extremely fragmented with many small operators, low barriers to entry and low freight rates. Road Freight rates in Pakistan are among the lowest in the world, with an average cost of USD 0.015 to USD 0.021 per ton kilometre (World Bank, 2006). Other studies conducted on the Freight sector also suggest a similar pattern with Pakistan coming out to be among countries that have lowest freight rate in the world. According to a study conducted by DIFID,[22] long distance tariffs are lowest in Pakistan at USD 0.01 to USD 0.03 per ton kilometre. The study found out similar low rates in other Asian countries as well, however it concluded that precise data was hard to obtain and different sources presented different scenarios.

In a self-conducted telephonic survey it was found that 10 tons of light dry cargo from Karachi to Lahore costs PKR 100,000. However, increase in weight is not proportionally accompanied by increase in freight rate, as a 30 ton light dry cargo would cost between PKR 120,000 to 130,000. Rates for heavy cargo like iron and coal are different *e.g.* for coal per ton rate is PKR 2600.

Another interesting finding of the survey was that upcountry rates for freight are far less than down country freight rates *e.g.* a 10 ton truck load will only cost between PKR 20,000 and PKR 25,000 for a trip from Lahore to Karachi which in the reverse case would cost PKR 100,000. The reason being the fact that the majority of trucking companies are clustered in the port city of Karachi and are bound to make a trip back to their origin, the export-import imbalance has resulted in decreasing the exports of the country that are mainly transported from export hubs in Punjab (Lahore, Faisalabad, Sialkot *etc.*) to Karachi driving the demand for trucking back to Karachi down and thus decreasing the freight rate. Another explanation is embedded in the composition of the Trucking Industry itself. Small operators of 1-5 trucks making most of the industry result in fierce competition for survival. Over the last 20 years, revenue per kilometre accruing to operators has decreased in real terms by 1.4 percent on average per year.[23]

Determination of tariffs in the Trucking sector has been a tricky estimation as Trucking costs are subject to error. Tariffs vary according to distance travelled, load capacity of the freight vehicle, market characteristic and type of cargo. They are also subject to demand and are cyclical in nature. Therefore time is a better indicator of efficiency than cost in the freight system.

[19] Interview with Company official.
[20] www.agility.com
[21] Interview with company official.
[22] Freight Transport for Development, Toolkit Road Freight. DIFID
[23] World Bank, 2006. "Transport Competitiveness in Pakistan: Analytical Underpinnings for the National Trade Corridor Improvement Program " Report No 36523-PK

Time taken

Trucks operate long hours and carry excessive loads while traveling at low speeds, ranging between 20 and 25 kilometres per hour compared to 80-90 kilometre per hour in Europe. A journey in Pakistan takes three times longer than in Europe. Road freight takes 3-4 days between ports and the north of Pakistan (approximately 1,400-1,800 kilometres), which is twice what it takes in Asia and Europe (World Bank 2006).[24] Trucks repairs need due to overloading also extends the transport time (JICA 2006). In a globally integrated market, comparison between Pakistan and developed countries is not out of context as it is with these economies that Pakistan competes internationally.

The reason for the lesser increase in freight as compared to increase in weight is explained through the phenomena of overloading. Truckers resolve to overload in order to maximize their profits.

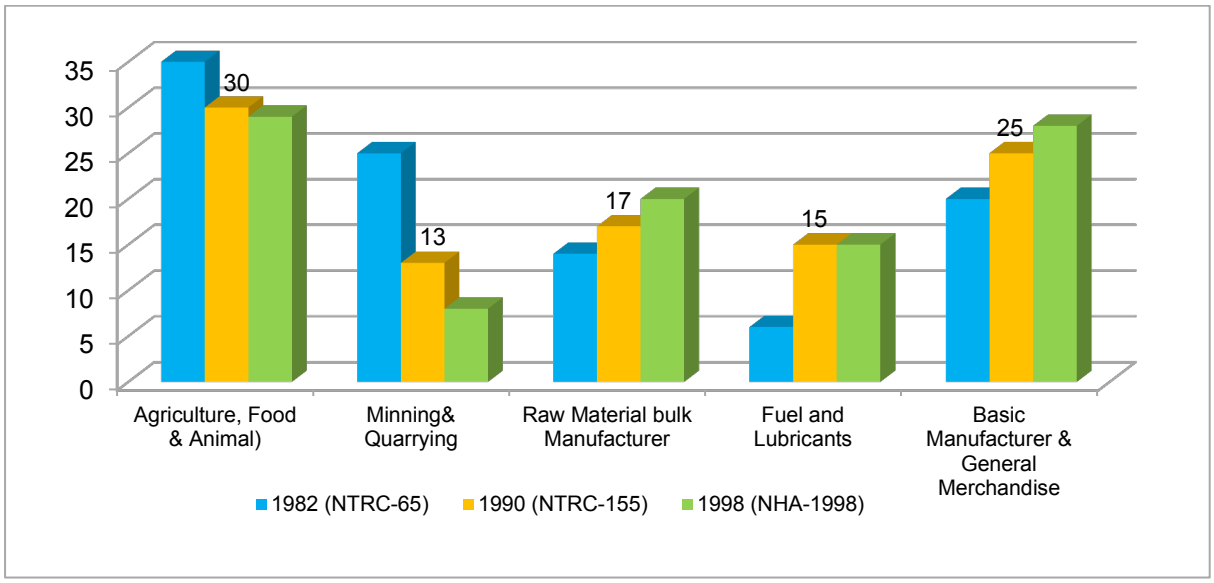
Majority of trucking companies are concentrated in the port city of Karachi. On a social divide majority of truckers belong to a particular ethnic group. There is no barrier to entry or exit in the industry.

The two ports in Karachi make up for 95% of Pakistan international trade, making it a hub of transport activity. The disparity between the down country freight rates and the up country freight rates is explained by the import-export imbalance, as more goods are imported in the country than exported the traffic going down from Karachi has more demand thus charges higher rates while the exports destined for Karachi have gone down resulting in lower rates. Besides most of the companies are Karachi based a low priced trip back home is better than an empty one.

Type of commodities transported by trucks

Ballast, gravel, stone, cement, fruit, fertilizers and wheat are the most important commodities in terms of ton transported by trucks.[25] The transport volume of fruit is the highest in terms of tons per kilometres.

Figure 9: Share of road freight trips by commodity type



Source: World Bank, "Transport Competitiveness, 2006"

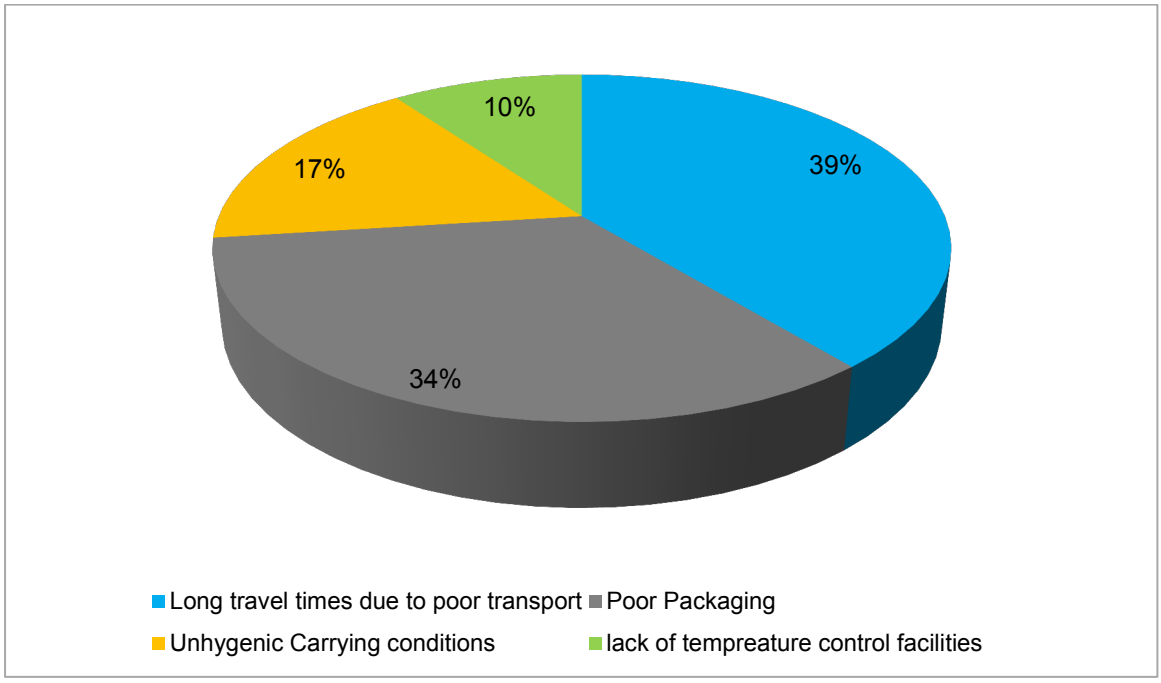
[24] Greening Growth in Pakistan through Transport Sector Reforms. http://dx.doi.org/10.1596/978-0-8213-9929-3
[25] JICA, 2006.

Transport of agri-products

Despite the limited availability of refrigerated vehicles, perishable goods such as fruits, vegetables, meat, eggs and milk, among others are transported over long distances by roads.[26] Yet, the country's true potential to trade fresh foods is severely undermined due to lack of temperature controlled transport system. According to an estimate,[27] about 30-40% of the produce is wasted during transportation between the farm, wholesale and retail markets. In addition to poor farm to market roads and lack of refrigerated transport and warehousing, low quality packaging materials and faulty methods of loading and unloading also contribute to wastage of perishable goods.

There are different reasons for damage to perishable items, according to a study[28] conducted by Ministry of Commerce in 2007, majority of respondents declared that 10 percent of their consignments ended up having damage issues. Key reasons cited for the losses, in order of importance, were long travel times due to poor transport infrastructure (average speed being very low), poor packaging, unhygienic carrying conditions and inadequate facilities (temperature control, *etc.*).

Figure 10: Reasons for damage to perishable items



Source: Ministry of Commerce, 2007

Mode of payment

During the self-conducted survey it was found that payment modalities related to transporting consignments was majorly cash in the road freight sector. This fact is also validated from the findings of the Commerce Ministry's Study on Domestic Commerce that revealed that nearly 85% of respondents in their survey suggested that transport deals are paid for in cash.

[26] JICA,2006

[27] FIAS, Pakistan (2005), "Improving the Performance of Housing, Tourism and Retail Sectors."

[28] "The state of Domestic Commerce in Pakistan. An overview of the Transport Sector". Ministry of Commerce, Government of Pakistan, 2007.

The distribution of the modes of payment is as follow (primary data[29]):

- Cash: 86.6%
- Credit: 11.3%
- Other: 2.1%

Use of modern technologies to improve and enhance services

Use of modern technology to improve and enhance services in the trucking industry has certainly picked up in recent times but is mostly limited to large and medium size companies, while the sector is dominated by small size companies. Large and medium size fleet operators in the market have GPS installed vehicles and they use internet for sensitizing the market and reaching out to their clients. Although the use of internet, for marketing, has certainly increased in the recent past, but during the research it was found that the contact details given for most of relatively smaller operators were not valid.

Trucking associations

Most of the Trucking companies are members of Trucking Associations, according to a survey based study,[30] three-fourth of the firms included were found to be members of different trucking associations. Transporters of agriculture commodities were found to be more active in the area of operation as compared to transporters of non-agricultural goods. During the self-conducted survey it was found out that associations were run on self-help basis by the trucking companies, and were actively involved in negotiating with the government on behalf of the industry. Some of the major concerns of the trucking associations in Pakistan are related to security issues, theft, snatching and police related issues.

Major obstacles for trucking

The major hurdles for the freight service in the country are the low freight rates (which constrain the revenue of independent truckers) and high import tariffs on high capacity multi-axle trucks (which range between 30 to 60 percent). Lower freight rates in Pakistan are reflective of the fierce competition in the industry. Although this helps in lowering the cost of doing business for those who use trucking services however, cost to the economy due to road damage rise significantly due to overload and extensive use of highways. Wastage of perishable items and damage to goods during transportation and increased rate of accidents are also the bi-product of this.

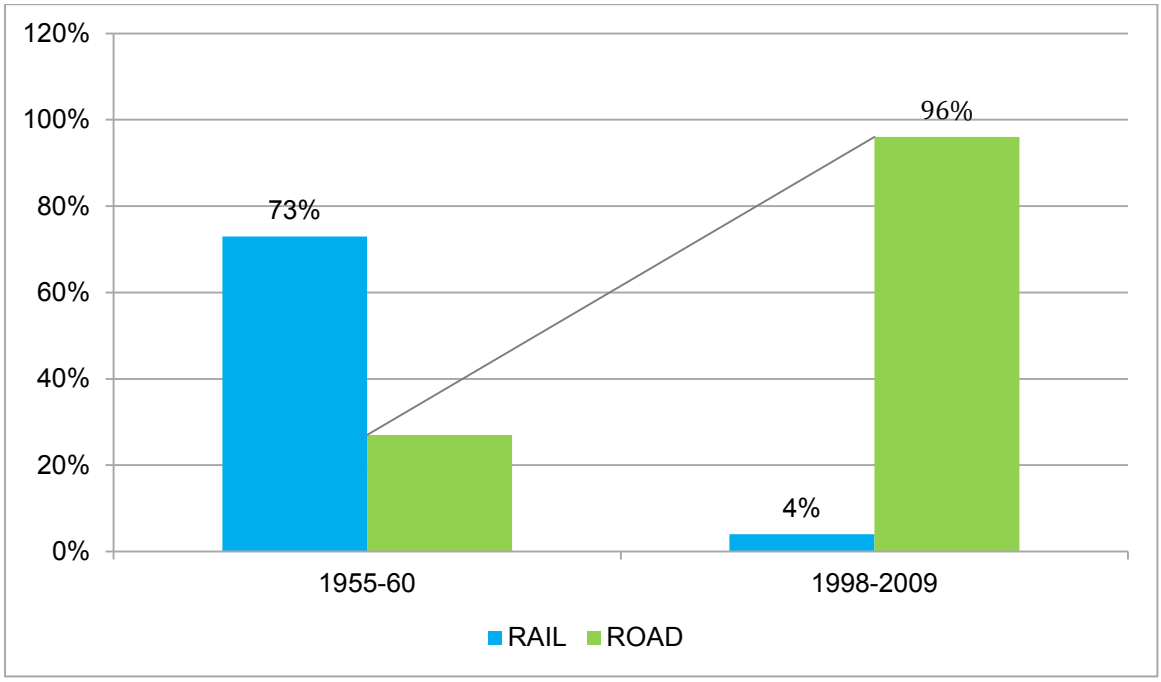
[29] "Study on the state of Domestic Commerce in Pakistan". "An overview of the transport Sector". Ministry of Commerce, 2007

[30] "Study on the state of Domestic Commerce in Pakistan". "An overview of the transport Sector". Ministry of Commerce, 2007

PAKISTAN RAILWAYS (PR) - NATURAL COMPETITOR OF ROAD FREIGHT

Railways all over the world have an edge in long haul and mass scale transportation of both goods and passengers. In Pakistan also, it was the primary mode of transport until the 1970s. Since then railways' share has declined due to the shift in government's preference towards road. During 2005-10, budgetary expenditure on railways was only PKR 45.5 billion, whereas for national highways it stood at PKR 155 billion. Today railways' share of inland traffic for freight traffic has decreased from 73 % in the 70's to 4 %.

Figure 11: Comparative evolution of rail and road freight



Source: World Bank, 2011

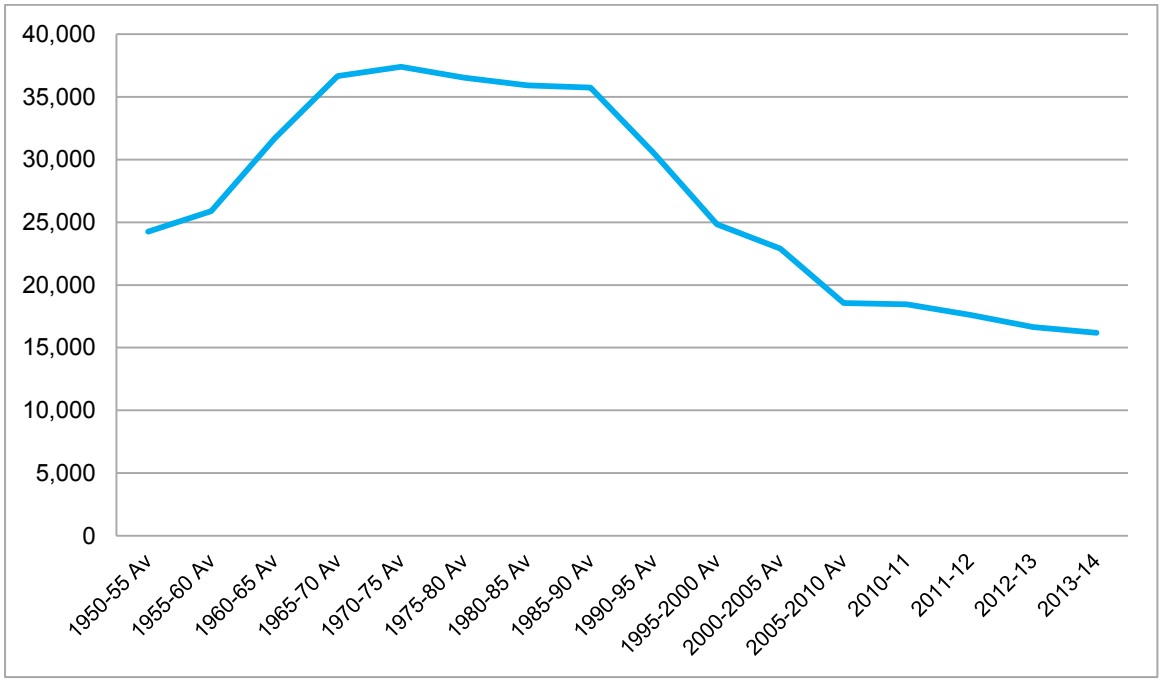
PR first lost ground to NLC, after its inception in 1978, to clear goods from Karachi port. PR has found it difficult to regain its historical position since then. It is evident from the declining figures and graph above. On the freight handling front PR has been on a downward spiral, even until 1990 the percentage of total freight carried by railways was 14%, however currently we stand at an embarrassingly lower percentage of 4.

Freight fleet of PR

The number of Freight fleet owned by the Pakistan Railways at the end of the year 2013-14 was 16,179 comprising of: 4,531 covered wagons, 4,549 open wagons, 524 special type wagons (for carriage of liquids, explosives, machinery, live-stock, timber, rails, *etc.*), 625 departmental wagons, 1,741 container, 3,810 tank wagons, and 399 brake-vans. Out of these 10,887 wagons 5595 are 4 wheelers and 5292 are 8 wheelers.

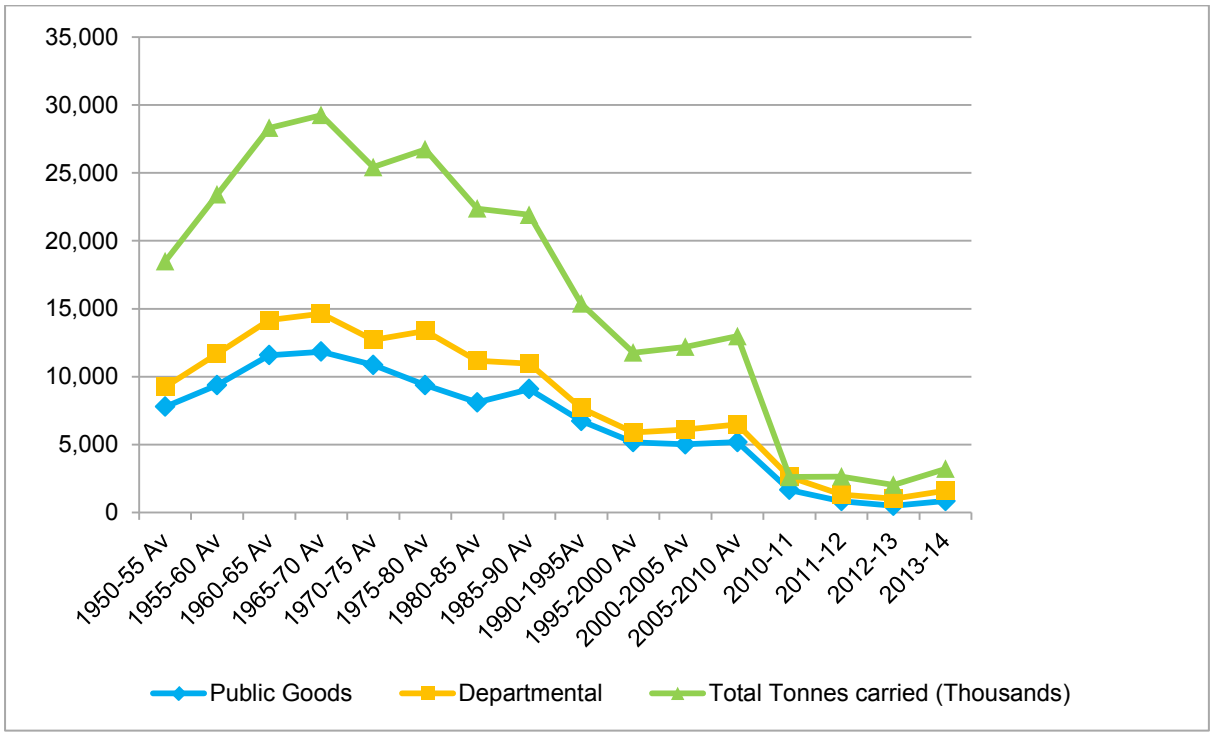
The number of freight fleet has seen a decline over the years reflecting the fact that freight has been on the back burner for PR.

Figure 12: Total Pakistan railways freight fleet



Source: Ministry of Railways, Government of Pakistan

Figure 13: Evolution of Pakistan railways total freight carried



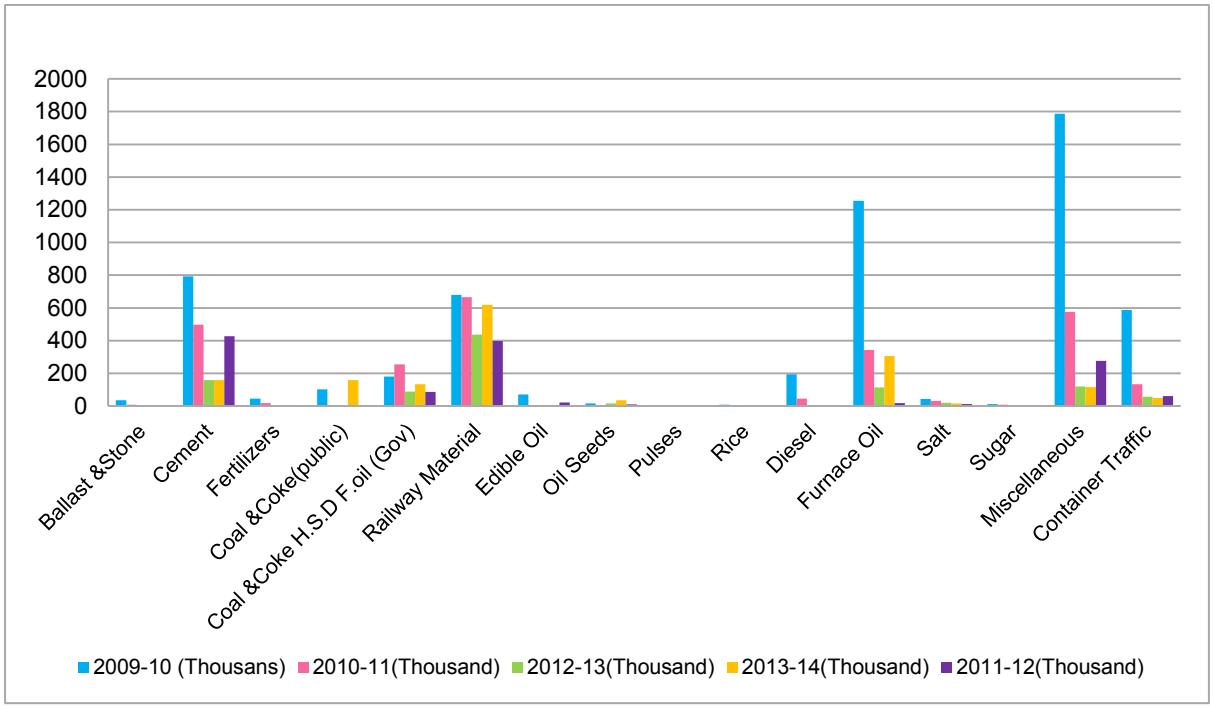
Source: Ministry of Railways, Government of Pakistan

The above figure reflects that the freight operations of PR have been on a steep decline, there has been a slight improvement from 2012-13 in which total tons of freight carried was 1,016,000 while in 2013-14 it improved slightly to 11,610,000 tons.

Type of commodities carried by freight operations of PR

Analyzing the freight carried by PR over the years commodity it can be stressed that only few commodities stand out in the PR Freight operations that include cement, coal, diesel, furnace oil and miscellaneous. PR is not very active in carrying container traffic which makes a fair segment of freight traffic in the country. The container traffic saw a steep decline from 2009 onwards from 587,000 tons in 2009-10 to 50,000 tons in 2013-14. The figures are also suggestive of the fact that PR does not carry agri-products to its potential. Freight of every commodity is on a decline in PR, however it has certainly not been a choice of transportation for farmers of perishable agri-products like fresh fruits and vegetables and even non-perishable agri-products (wheat, grains, pulses, rice, sugar, Cotton raw, un pressed and full pressed). These agri-based products are transported from their origin to places across the country over long distances where PR should have been their first choice in presence of an efficient railway system in the country.

Figure 14: Pakistan railways commodity wise freight carried (tons)



Source: Ministry of Railways, Government of Pakistan

Reasons for losing ground to road freight

Pakistan Railways faces severe competition from road transport. It is a competition in which PR is placed at an inherent disadvantage because of government's priority for investment in road over rail transport. During 2005-10, budgetary expenditure on railways was only PKR 45.5 billion, whereas for national highways it stood at PKR 155 billion. The other reason for PR's inability to compete is its poor governance. Since 1990-91, total track length has also decreased from 8,775 to 7,791 km. Total freight decreased from 7.7 to 4.6 million tons (40 percent) (Government of Pakistan 2011). Moreover only one-third of the total rail network is used for core commercial purposes.

PR is a complex unit and has number of factors contributing to its inefficiency; however, one of the major factors is cross subsidization of passenger traffic from freight. PR's main focus is servicing passenger rather than providing quality freight services even though it is more profitable and can help

PR to overcome its financial problems. In 2009-10 PR carried 58.97 million passengers and only 4.6 million tons of freight (Government of Pakistan, 2011). It is just better business sense for PR to give priority to freight over passenger as average freight revenue is higher than unit passenger revenue. However there is a clear swing in government's priority in favour of passenger service. Priority is given to passenger over freight in provision of train paths, more powerful and reliable locomotives, and management. This lack of ownership has resulted in a continuous decline in the freight volumes both in tons and ton-kilometre. These practices, coupled with lack of investment in locomotives, wagons, and improving track capacity and quality, have clearly reduced PR's capacity to provide reliable freight services and maintain the business reputation it held in the post 70's era.

Freight sector inefficiencies are costing the economy about PKR 150 billion per year, and low quality service is impeding Pakistan's regional competitiveness: the productivity of PR freight services is roughly one-eighth of Chinese Railways, one-third of Indian Railways, and half of Thai Railways.

Table 3: Evolution of Pakistan Railways freight transportation

Year	Freight Ton	Ton-Kilometer
1980-85	11.2	7,380
1985-90	11.0	7,940
1990-95	7.7	5,890
1995-2000	5.9	4,370
2000-2005	6.1	4,744
2005-2010	6.2	5,285

Time taken

Currently, it takes 21 to 28 days for PR to deliver upcountry at a distance of 1,800 kilometres, which is four to seven times slower than in the United States and China.[31]

Towards the "era of Co-modality"

In a new development Government of Pakistan plans to start transportation of transit cargo through railways from Karachi to Torkum/Chuman Custom stations. The goods will be transported from Karachi to Peshawar from where Trans-shipment facilities (trucks) will be provided. The cargo will be off-loaded from railways and will be loaded on the trucks for crossing the border. PR plans to run 1 to 2 trains carrying 100 containers per day that would reduce the time and cost for transit cargo. The estimated running time between Karachi to Torkham-Chaman for a loaded rolling vehicle will be 5-7 days. In short, transportation of transit cargo through railways will provide a competitive environment that will help in decreasing the cost of doing business and would also incentivize using Pakistan as a transit route.

Such initiatives if materialized would be Pakistan's first step into the "era of co-modality", which is based on the integration and complementarities of transport modes to improve efficiency. The transport supply chain system is not providing the value-added services that are the flag ship of modern logistics in many advanced and even some developing economies, e .g. multimodal systems that combine the strengths of different transport modes into one integrated system.

[31] Strategic Environmental, Poverty and Social Assessment of Trade and Transport Sector Reforms. Report No 71812-PK, World Bank, 2012.

Each freight transport mode has characteristics that give them inherent advantages and disadvantages, thus making them more efficient, and generally less costly, for particular transport tasks. For example, because of economies of scale rail freight generally has a competitive advantage and lower costs over road freight for longer distances and for the transport of bulk commodities while in transportation in urban areas, combination of often dispersed origins and destinations, relatively shorter distances, and lighter shipment road freight has a competitive edge over rail.

Moreover, given that rail is more environmentally sustainable than road, the case for integrating rail into freight logistic itineraries for goods is critical. A multimodal system recognizes that different modes, when integrated together under a single contract, can provide a perfect mix to reach the ultimate goal of transporting the goods to their destinations effectively and efficiently.

The above 500 KM Approach:

Table 4: Approximate distances in Pakistan

City or Town	To	Distance (km)
Karachi	Lahore	1,260
Karachi	Rawalpindi	1,540
Karachi	Peshawar	1,700
Karachi	Khyber Pass (Afghan Border)	1,756
Karachi	Khunjrab Pass (Chinese Border)	2,400
Gwader	Lahore	1,771
Gwader	Rawalpindi	2,051
Gwader	Peshawar	2,211
Gwader	Khunjrab Pass-Chinese border	2,900
Gwader	Karachi	400

The distances in Pakistan for major routes are above 1000 km. The National Highway N-5 extends over 1,700 km and connects Karachi with Peshawar, while N-55 connects Hyderabad with Peshawar over a distance of 1,265 km. This is the busiest freight route of the country. Studies show that rail is more effective than road in terms of cost for distances over 500 km. Most of the freight destinations in Pakistan are above the 500 km mark.

By adopting a multimodal system and using a mix of rail and trucking for different distances a cost and time effective result can be achieved. The rail sector can concentrate on heavy commodities and long distances with trucking complementing the operations at pickup and delivery to customers door step.

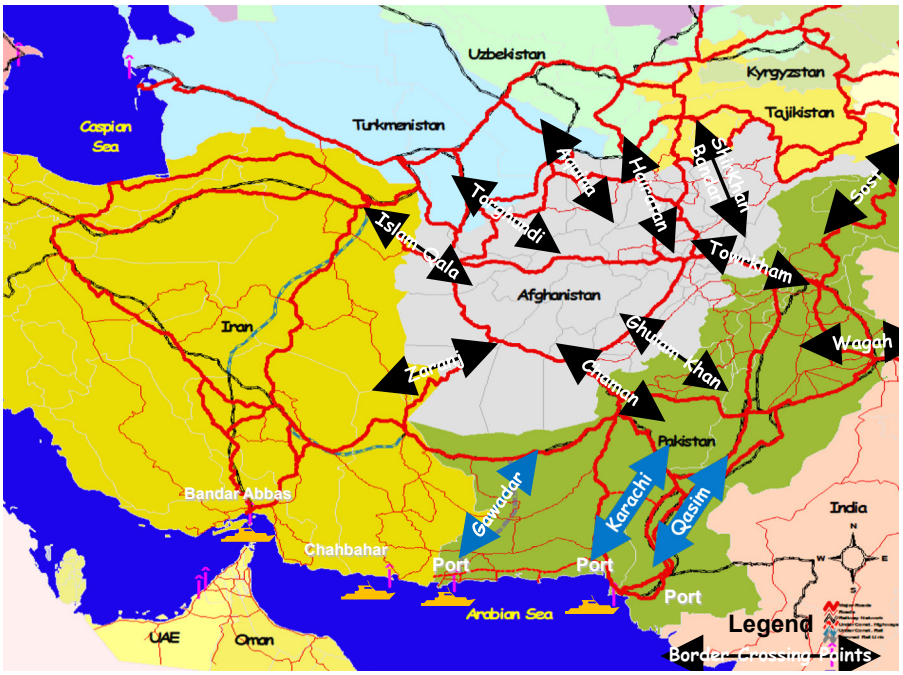
An efficiently run rail freight system is generally not competitive with trucking for short distances (below 300 km); however, rail is far more competitive than road freight for longer distances (over 500 km) and possibly competitive at medium distances (250-500 km).[32] The average trip distance for trucks in Pakistan is 947 km per trip.[33] Moreover, as fossil fuels become scarcer and more expensive in the future, rail's competitive advantage for long distances is likely to become larger. Thus, it is high time that PR should focus on its freight operations and increase its capacity and efficiency to provide cost and time effective freight services and take its position as the natural competitor of road freight.

[32] Pakistan strategic, environmental, poverty and social assessment of trade and transport sector reform, WB 2012.
[33] Where is the Economy going? Follow the Truck, DIFID

PAKISTAN A NATURAL CORRIDOR FOR TRANSIT TRADE

The History of transit trade in the region trace back to centuries. Pakistan was at the center stage of one of Asia's oldest roads, the Grad Trunk Road (GT Road). The road connected Chittagong (India) to Kabul (Afghanistan), passing through Delhi and Lahore. The route existed during the Mauryan Empire. However, it was rebuilt by Sher Shah Suri in the 16th century and upgraded by the British in the 19th century.

In the British held subcontinent freight could move seamlessly by rail and road from Karachi to Lahore (present day Pakistan) to Delhi and Dhaka that are present day India and Bangladesh respectively. Unfortunately, the region could not build on the blocks of its past and develop into a well-integrated economic block after it gained independence in 1947 and political differences became the force driving the relations between the states.



However, Pakistan is endowed with potential of becoming a natural corridor for transit trade. It enjoys a position of immense geostrategic importance, bordered by Iran on the west, Afghanistan on the northwest, China on the northeast, India on the east, and Arabian Sea lying in the south. Its geographical location has placed it at the crossing of many trade routes.

Pakistan is blessed with a location by virtue of which it can develop into a focal point for providing logistics to the neighbouring states, especially land-locked Afghanistan. The Central Asian Republics (CARs) of Kazakhstan, Kyrgyzstan Tajikistan, Turkmenistan and Uzbekistan, possessing rich oil and gas assets also need a corridor and a transit route to export their energy resources to South Asia which will pass through Pakistan.

Pakistan's strategic location is also crucial for China for its trade movements to the Indian Ocean and Arabian Sea through the Karakorum Highway. To maintain a rapidly growing economy, China imperatively needs access to other states for trade expansion. Pakistan and China have signed an agreement to create "Pak China Economic Corridor (CPEC)" that will provide China with transit trade routes for western region and energy corridor to import oil from the Gulf region. This corridor is still at the inception stage.

At present the most important transit route in Pakistan is the Pakistan Afghanistan route. This route attracts the most transit freight traffic.

Afghanistan Pakistan Transit Trade Agreement (APTTA)

Afghanistan is a landlocked neighbouring country that shares a 2,430 km border with Pakistan. There are several passes and transit points connecting the two countries. Pakistan provides the shortest route to Afghanistan for carrying out its trade through its ports. Pakistan shares a porous border with Afghanistan along the Durand Line; however, three border crossing points have been agreed along the Pak-Afghan border in the APTTA Agreement: the Torkham, Chaman-Spin Boldak, and Ghulam Khan Border crossings. Most of the Afghan transit trade takes place through the Torkhum border.

The Agreement provides Pakistan with access to all countries bordering Afghanistan. The entry/exit points for Pakistan in Afghanistan are: Iran via Islam Qila and Zaranj border• Uzbekistan via Hairatan• Tajikistan via Ali Khanum, Sher Khan Bandar• Turkmenistan via Aqina and Torghundi• Afghanistan has been provided access to the three ports of Pakistan: Port Qasim, Gwadar Port and Port of Karachi. Access to China is granted via the Sost/Tashkurgan border point and to India via the Wagah border point. With respect to Afghanistan's access to India, Afghan trucks are allowed access on designated routes to Wagah where the cargo is off-loaded onto Indian trucks and the Afghan trucks on return are permitted to carry Pakistan's exports for Afghanistan.

Specification for trucks

The Agreement allows only trucks owned by licensed customs bonded carriers to carry international transit. As per the Afghanistan–Pakistan Transit Trade Rules, a transport operator is only eligible for license if it possesses a fleet of minimum twenty-five registered vehicles, is registered under the Companies Ordinance, 1984, with membership of the concerned Chamber of Commerce and Industry, and possesses a National Tax Number (NTN) under the provisions of Income Tax Ordinance 2001. The licenses are issued against financial security for rupees fifteen million and a revolving insurance guarantee of rupees five million from an insurance company of repute.

Pakistan agreed to accept guarantees from the Afghan Ministry of Communications instead of bank guarantees, as banks in Afghanistan and Pakistan were reluctant to furnish such guarantees. This arrangement provided a viable option to Afghan traders to use Afghan trucks for transit of their goods through Pakistan

APTTA requires that road vehicles travelling through another Contracting Party's territory are covered under the third party vehicle insurance in the host country. APTTA requires its signatories to take necessary steps to ensure that vehicles registered in their territory are covered under such insurance schemes. APTTA also necessitates the use of vehicle tracking systems and instructs the Contracting Parties to track the movement of vehicles in their respective countries. These provisions, if suitably implemented, are an important step in effectively dealing with the problem of unauthorized trade

Afghanistan has raised concerns regarding the underpowered fleet of bonded carriers authorized to transfer Afghan transit goods from Pakistani ports through steep mountainous terrain due to domination of single vehicle owners driving under powered trucks in the Pakistani trucking sector. The trucking industry needs to be modernized to ensure that the significant volume of transit trade via road network is handled in a timely manner. APTTA allows road vehicles of Contracting Parties to enter into the territory of the other Contracting Party to carry out transit services; however, in practice Afghan trucks have reportedly not been able to travel beyond Peshawar for this purpose they off load

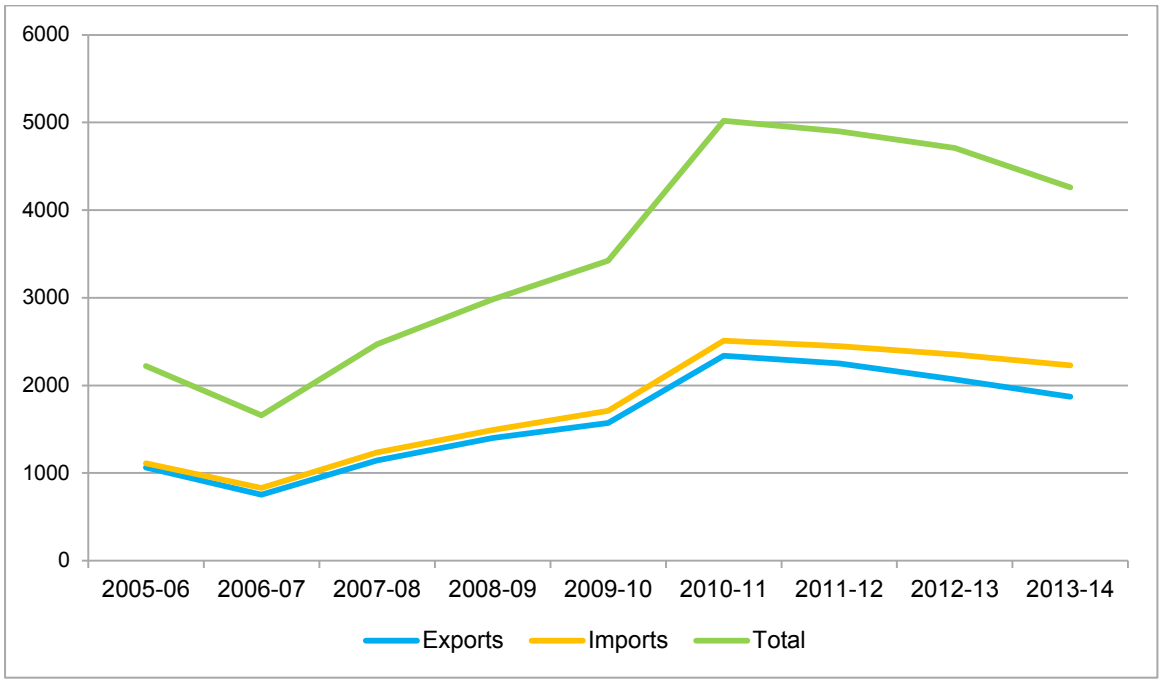
Afghan goods at Peshawar onto Pakistani Trucks. The rationale behind this practice is the fact that, as already stated, freight rates in Pakistan are highly competitive making more economic sense for the Afghan Trucks to off load at Peshawar.

Due to economies of scale and cost effectiveness PR was the preferred choice of Afghan traders for the transit of their goods. However, excessive delays and lack of space in railway transit have diverted transit traffic to road transport, thereby increasing the pressure on Pakistan's fragile road infrastructure. Recently the Government of Pakistan has initiated the launch of a transit train for this purpose which will reportedly transport 100 containers per day with running time of 5-7 days. This, if materialized would be Pakistan's first step into co-modality.

Volume of Bilateral Trade between Afghanistan and Pakistan

The volume of bilateral trade between the two countries has increased manifold during the last decade it has increased from US$ 1110.9 million in 2005-06 to US$ 2 billion in 2013-14. Exports from Pakistan to Afghanistan have increased from US $ 1063.4 million to US$ 1870 million during the same period.

Figure 15: Trade between Pakistan and Afghanistan in USD million



Major exports:

Main items of exports to Afghanistan are rice, petroleum products, animal and vegetable fats and oil, vegetable, dairy products, construction material, articles of plastics, chemicals, pharmaceuticals and electrical machines.

Major imports

Major items of import from Afghanistan include vegetable, fruits, raw cotton, carpets and rugs, hides, skins *etc*.

Transit trade statistics

Afghan transit trade through Pakistan has increased from USD 1352 million in 2010-11 to USD 2717 million in 2013-14. The details of transit trade during the last few years are given in the table below:

Table 5: Transit trade between Pakistan and Afghanistan in USD million

Period	Commercial	Non Commercial*	Total
FY 2009-10	2,157	1,165	3,322
FY2010-11	1,871	1,165	1,352
FY2011-12	1,256.33	525	1,781
FY2012-13	1,319.9	564.5	1,884.4
FY2013-14	2028.6	688.5	2,717.1

*Embassies, NGO's, UN, Government of Afghanistan

Source: Federal Board of Revenue, Government of Pakistan

Afghan goods in transit to India have also experienced a steady increase in terms of weight and value as depicted in the Table below:

Table 6: Afghan goods in transit to India

Financial Year	Weight M.Tonn	Value PKR. Million	Number of Trucks
2009-10	18,920	2,933	1,503
2010-11	21,775	3,836	1,724
2011-12	26,796	4,948	1,697
2012-13	53,648	11,338	2,772

Source: Ministry of Commerce, Government of Pakistan

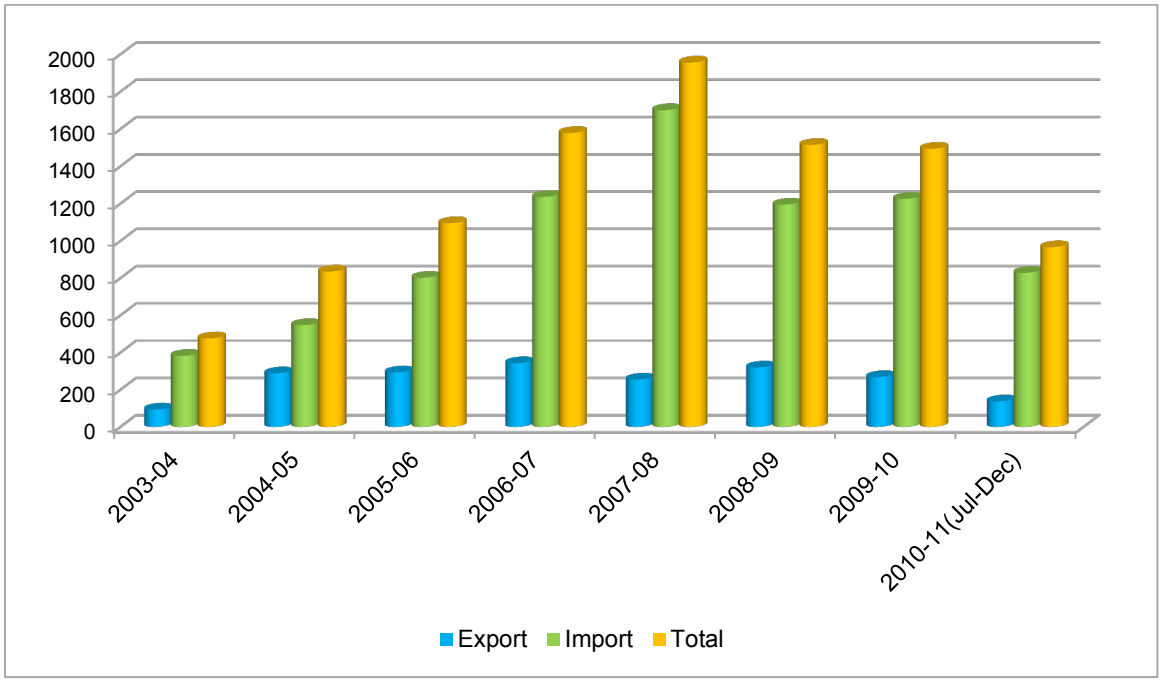
Trade with India

Pakistan and India share a troubled history, with three wars fought and number of burning issues still in the basket, security concerns and mistrust drive the relations of the two neighbours rather than trade and economic concerns. The real breakthrough in Indo-Pak trade came in 2005 when a land route was opened for a limited number of commodities at Wagha. Cross border movement of trucks started as a result of Pakistan India Joint Statement in August 2007.

Potential of trade between the two countries is huge an estimated twenty times more than its present figure, however, it is directly linked with fluctuations of political temperature between the two nations. In 2012-13, trade between Pakistan and India were estimated to be US$ 2.4 Billion.[34] The trade between the two countries has an imbalance in India's favour.

[34] India-Pakistan Trade Statistics, Ministry of Commerce. Government of India.

Figure 16: Trade between Pakistan and India in USD million



Source: Ministry of Commerce, Government of Pakistan.

Pakistan started its exports to India through trucks in October 2010. The Pak-India bilateral trade, particularly through Wagha border route, saw a steady improvement especially in context of Pakistani trucks, in 2011, 31,897 trucks carrying goods worth PKR 21 billion reached Pakistan while only 4,664 trucks having goods of PKR 1.33 billion were sent, however this figure improved significantly from 2012 onwards. Wagha experiences two types of truck traffic one is the Pak-India trade related Truck traffic while the other is the Afghan Transit Trade traffic. Transit trade statistics in terms of number of trucks crossing Wagha are given in the Table below:

Table 7: Number of trucks at Wagha

Financial years	Imports	Exports	Afghan Transit
2009-10	18,213	0	1,503
2010-11	31,897	4,664	1,724
2011-12	36,157	22,272	1,697
2012-13	44,589	32,393	2,772

Source: Ministry of Commerce, Government of Pakistan.

The Wagha dry port maintains a Land Freight Unit (LFU). It was established in 2009 to handle trade between India and Pakistan, through the road link at Wagah. Cross border movement of trucks up to LFU is allowed. The LFU at Wagha is owned and operated by NLC that, as discussed in earlier chapter, is a major Fleet operator.

Table 8: Major items of imports and export between Pakistan and India in the Financial Year 2013-14

Import	Export
Soya bean Meal	Dry Dates
Fresh Tomato	Rock Gypsum
Raw Cotton	Soda Ash

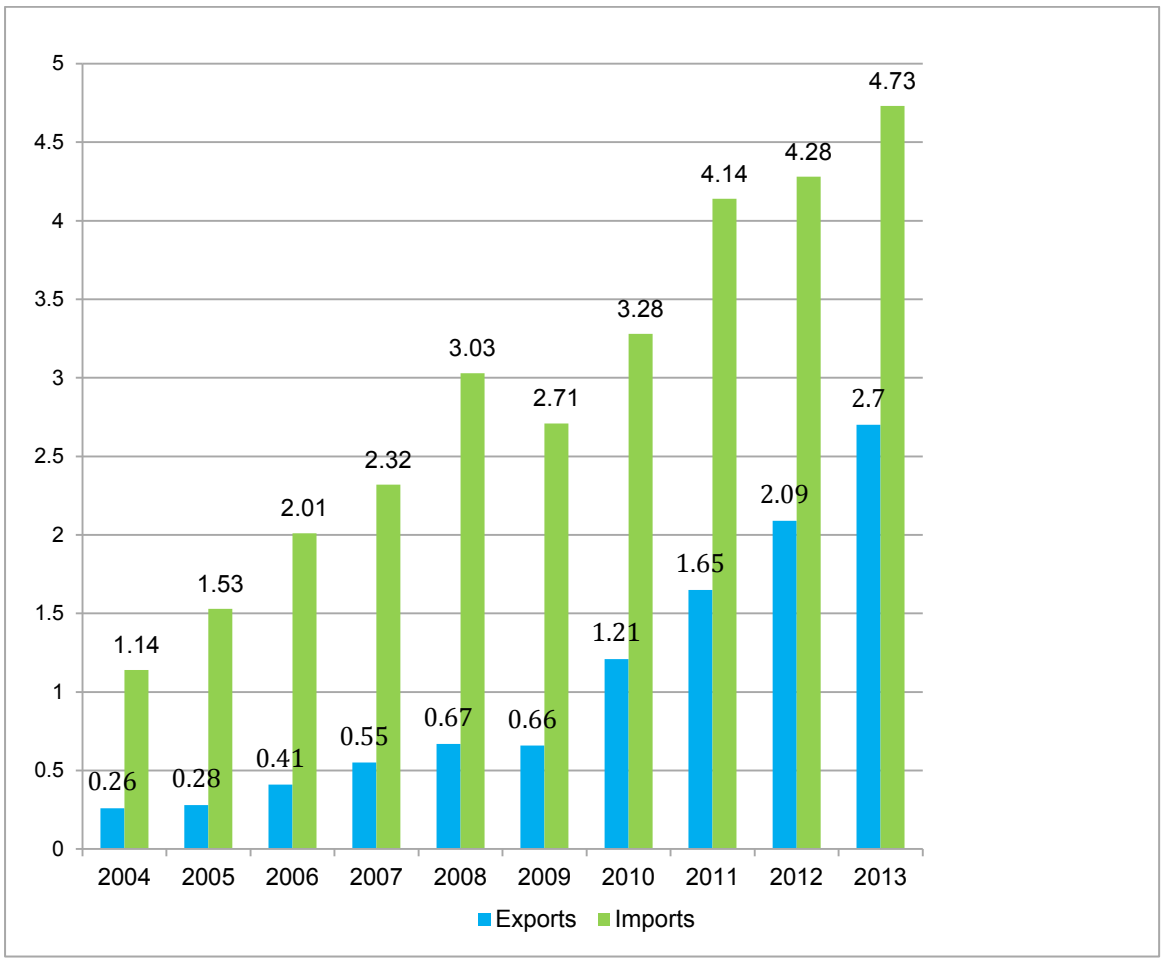
Fresh Onion	Hydrogen Peroxide
Mixed Vegetables	Caustic Soda
Cotton Yarn	Herbs
Polypropylene	Rock Salt
Boneless Buffalo Meat	Cement
Raw Jute	Clinker
News Print	Coal

The trade with India depends upon peace and security in the region, however in a well-integrated region the potential of trade among both countries is huge increasing the importance of transit trade. Pakistan has not given India transit rights to cross through its territory likewise India has not given transit rights to Pakistani trucks to access markets of Nepal and Bangladesh. Pakistani trucking industry needs to be prepared in order to reap benefit from a well-integrated region which will be a reality in a stable future.

Trade with China

China has gradually emerged as Pakistan's major trading partner both in terms of exports and imports and developed strong bilateral trade and economic ties and cooperation over the years. Bilateral trade and commercial links between the two countries were established in January 1963 when both signed the first bilateral long-term trade agreement. Under the Free Trade Agreement (FTA) between the two countries – signed on November 24, 2006 and implemented from July 1, 2007 – Pakistan secured market access for several products of immediate export interest. Trade between the two countries has experienced growth over the years however; the trade balance is in favour of China with imports from China having a much greater share than exports to China. Having said that the exports have also picked up post 2007 the year in which FTA was inked between the two countries.

Figure 17: Evolution of the Pakistan China trade in USD billion



Source: State Bank of Pakistan-Trade Statistics

Major exports

Main items of exports to China are Cotton, cereals, copper and articles thereof, ores and slags *etc*.

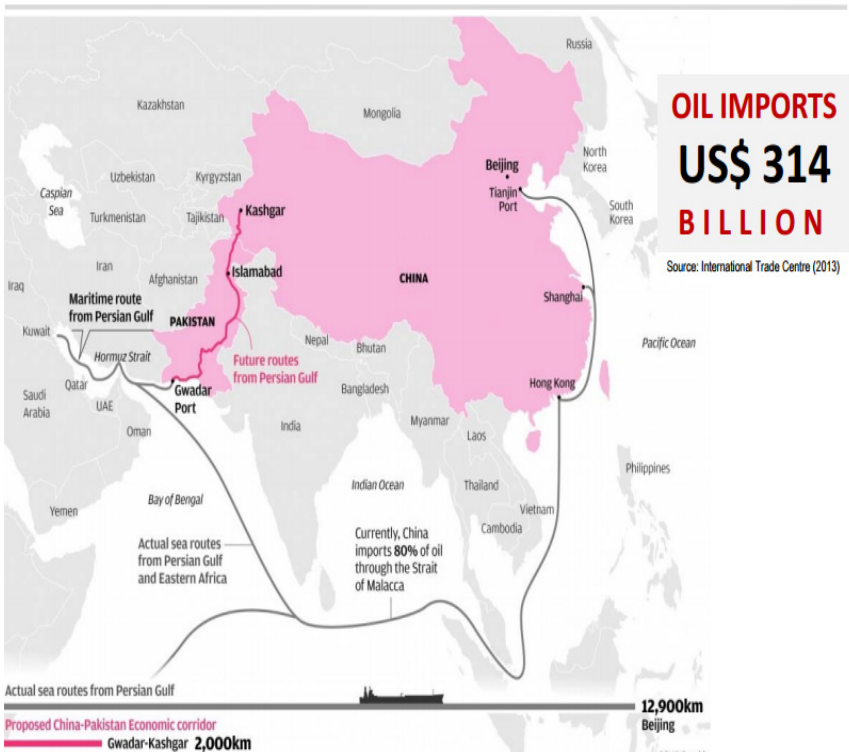
Major imports

Main items of Imports from China include Electrical and electronic equipment, man-made staple fibers *etc*.

China Pakistan Economic Corridor

The China-Pakistan Economic Corridor (CPEC) is expected to further strengthen trade and economic cooperation between the two countries. The China–Pakistan Economic Corridor (CPEC) is a development megaproject which aims to connect Gwadar Port in southwestern Pakistan to China's northwestern autonomous region of Xinjiang, via a network of highways, railways and pipelines to transport oil and gas. The economic corridor is considered central to China–Pakistan relations and will run about 2,000 km from Gwadar to Kashgar. The project was proposed by Chinese Premier Li Keqiang during his visit to Pakistan in May 2013. China and Pakistan signed a Memorandum of Understanding on China-Pakistan Economic Corridor on July 5, 2013. The agreement was signed during Prime Minister Nawaz Sharif's visit to China. On 20 April 2015, Pakistan and China signed an agreement to commence work on the USD 46 billion agreement, which is roughly 20 percent of Pakistan's annual GDP.

The bulk of this investment will be spent on energy related projects *i.e.* USD 33.8 billion and USD 11.8 billion will be spent on infrastructure which makes about 25 percent of the total investment. The project revolves around establishing several economic zones and physical links connecting Pakistan and China. Both the countries believe that this economic corridor will benefit new emerging regional cooperation in South Asia. This project is set out to transform the future of the region, driven by economy and energy, and the building of pipelines and ports with roads and rail infrastructure.



China is heavily dependent upon the oil from the gulf, at present this oil (80%) passes via a very long route (12,900 km) through the Strait of Malacca under US influence. CPEC provides China with a golden opportunity decreasing this huge distance to 3000 Km from Kashgar to Gwadar

The three options for China

1. Southern Corridor: The southern corridor begins from Guangzhou, which is the third largest city of China in South Central China. This route moves towards western parts of China and connects Kashgar with Pakistan at Kunjarab – a point from where China wants to link to Gwadar port in the Arabian Sea. It is the shortest and the most feasible option for China. But it is not the only option.

2. Central Corridor: The second Chinese option is the Central Corridor that starts from Shanghai and links the country to Tashkent, Tehran and onwards to Bandar Imam Khomeini Port of Iran on the Persian Gulf. One of its branches goes up towards Europe. This is the longer route but could be an option.

3. Northern Corridor: The third Chinese option is the Northern Corridor that starts from Beijing, passes through Russia, and links it to European cities.

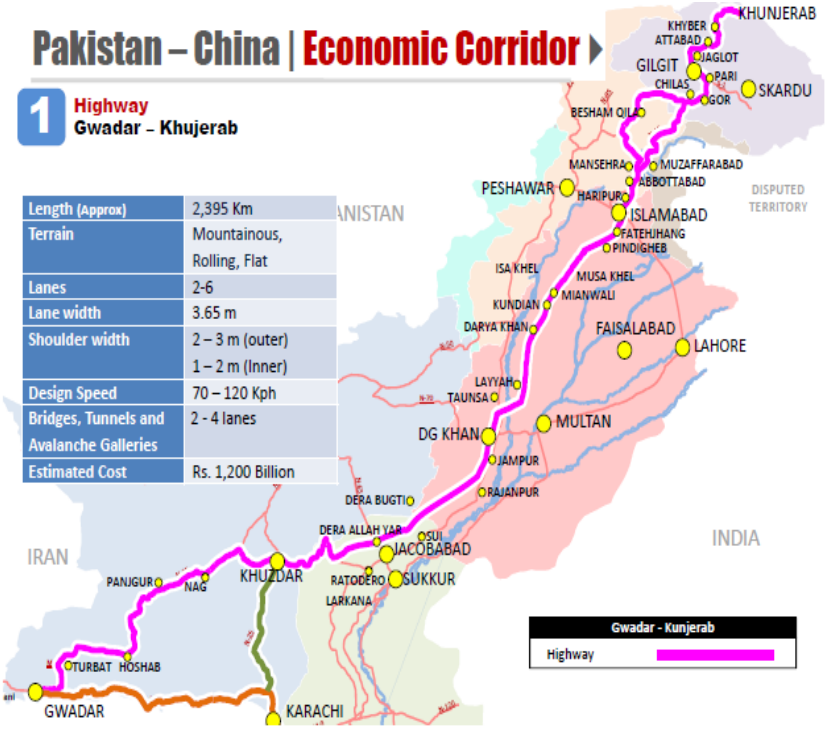
The Southern Corridor is the most cost and time efficient route for transportation of goods from and to China.

Geography of the CPEC

The CPEC is a huge project that will undertake the construction of highway and railway links running through most of Pakistan starting from Gwadar in Balochistan and culminating in Kashgar in western China, while passing through parts of Balochistan, Sindh, Punjab, Khyber Pakhtunkhwa provinces and Gilgit-Baltistan in northern Pakistan to reach the Khunjrab Pass and beyond to China.

The main highway is the Gwadar-Khunjrab Highway that has a length of 2395 km and an estimated cost of PKR 1200 billion.

The highway is the main artery of CPEC through Pakistani Territory however it is not the only one and has number of supplementary veins spread across the country to integrate every part of the country. This network includes the Karachi-Lahore Motorway, Muzaffrabad-Mirpur Expressway and a project of Freight Train that will operate from Karachi to Islamabad.



As can be seen in the figure above the Freight Train coupled with road network will provide regional connectivity with China (Gwadar-Khunjrab Highway) as well as other countries of the region like India, Afghanistan and Iran.

Pakistan is all set to welcome its first Private Train Operator the Pakistan Intermodal Limited that will facilitate efficient and cost effective freight movement between Pak-China Economic Corridor through its well established intermodal network across Pakistan.

CPEC Game Changer for Transport Sector:

The massive infrastructure of road and rail that will be constructed under CPEC will be a game changer for the Transport Sector of Pakistan the opportunity is huge and the roads and rail of the country will be hosting traffic that will be unprecedented in Pakistani Context.

The development of Roads and Rail would be followed by the following opportunities:

- Transport service opportunities

The transport companies can explore more avenues of business and seek opportunities in new markets through joint ventures and investments in this trade corridor.

- Establishing Inland Container Depots (ICD)

The Pak-China economic corridor will bring huge cargo to and from China and Pakistan and will require freight stations at various locations to bring port services closer to shippers in the hinterland through specialized rail-road services and decongesting the cargo traffic.

- Efficient freight villages

Ideally the facility will be located close to major metropolitan areas both in China and Pakistan which will serve as a market or supplier of much of the goods that will pass through.

- Improved trucking fleet

As explained earlier the Pakistani Truck Fleet is outdated and will not be able to absorb the flow that CPEC will bring once it is operational. Investment shall flow from private sector and modernization of the fleet shall be accompanied by increase in the size of the company in terms of number of trucks.

CONCLUSION

Transport is a complex business in Pakistan, a mix of formal and informal service providers, vendors, freight forwarders, formal and informal manufacturers, lack of a comprehensive Trucking Policy that is implemented in letter and spirit and absence of a dedicated Ministry of Transportation makes it a much neglected sector.

In 2007 the Trucking Policy was tabled, the policy was thought to be the first step towards documenting, regulating, financing and formalizing a sector that up till than was not even considered an Industry. It was a comprehensive Policy that touched upon all the issues faced by the Pakistani Trucking Industry. However, in spite of the fact that eight years have passed the policy has still not been implemented. This scenario suggests lack of ownership on part of government due to absence of a dedicated Ministry, prevalence of pressure groups resisting regulation in a sector that has never been regulated as such but most importantly lack of the ability to realize the potential of Transport sector and its contribution in the economy.

The dynamics of the Pakistani road freight are quite different from rest of the world unlike most other countries Pakistan's inland freight is highly tilted towards road (96%) as compared to rail due to inherent inefficiencies and preference of passengers over freight on part of Pakistan Railways, that is up till now the sole operator of rail in the country. The composition of the Trucking Fleet itself is outdated and capital starved with 79% of the companies falling in the small size (1-5 vehicles) firm category. An Overwhelming majority of these firms form the informal part of the trucking industry in Pakistan. This segment gives the Trucking Industry its fragmented shape and it faces a lot of problem and unhealthy competition in order to survive. One of the major problems faced by this informal part of the sector is access to formal finance. These small operators are unable to secure finance for increasing the number and capacity of their fleet from formal financial institutes and have to opt for the informal market for finance.

The industry does not face any competition issue in terms of Barrier to entry as there is no Barrier to entry or exit. There is no limit of number of vehicles or type of vehicles in a fleet to operate in the market. The fragmented nature of the industry has made the Trucking companies price takers in the market rather than price givers this argument is supported by the fact that freight rates in Pakistan are among the lowest in the country.

However, it is an evolving industry that is and will experience change. The number of middle size companies and large companies is growing suggesting a trend for the future and with it some possible competition concerns that may arise.

Presence of a dominant Government sector player *i.e.* NLC and the alleged preferential treatment, exemptions in form of taxes *etc.* received by it create an anti-competitive environment for the private sector companies and hamper their growth. Level playing field shall be created for all players of the market by insuring competition exercised in letter and spirit in the Bidding process.

Access to formal finance especially for the informal part of the industry is a very important aspect that needs to be looked at if the industry has to reshape and cope with the emerging situation that demands a modernized and adequately powered fleet. Incentives, special schemes and investment injections from the government in this sphere are essential. Competition aspect in this area would mean ensuring access to every eligible company without any preferential treatment tilted towards any specific company.

One of the ways to modernize and upgrade the fleet is by lowering the import duty on trucks thus making a good business case for firms to import trucks that meet international standards. Government should also relax import of reconditioned (second hand) trucks that meet international standards as they might be the only choice for most capital starved companies. This move will result in creating competition between the product of formal local manufacturers and the imported product. This will benefit the industry in shape of quality improvement in local products due to competition with international standard product.

The informal manufacturing sector that operates in the back street of every nock and corner of the country should come under the watch of some regulatory body. Investments in this sector can equip the informal manufacturers with the tools to improve and upgrade their products and possibly compete with other products that are available in the market.

Although Pakistan Railways is not competing with road for freight services in true sense but, it is its natural competitor. Changing scenario with implementation of CPEC that includes Freight train service from Gwadar to Khunjrab and the first Private Rail Freight operator will create a competitive environment both between rail and road and between PR and PIL, the first Private rail operator in Pakistan. In addition to creating competition among both natural competitors this would also be Pakistan's first step towards co-modality which will result in increasing the overall cost and time effectiveness of freight sector. This scenario however futuristic at this point in time will not be a distant reality given Government's commitment towards CPEC and would open new avenues for the Transport Sector. With new avenues new challenges may also arise and healthy competition between rail and road and between Public Sector rail operator and private sector rail operator must be ensured. Preferential treatments should be discouraged and a level playing field for all market players should be ensured.

Opportunity is Knocking on Pakistan's door in form of regional connectivity. Pakistan has a transit trade agreement with Afghanistan which allows Pakistani trucks to cross over from Afghanistan to CARS (Central Asian Russian States) however; there is not much activity in practice in this regard for now. Afghan trucks can cross over and unload at Wagha from where they are sent to India. A well-integrated transport modal involving trucks and train can reduce cost and time and provide an efficient transport solution. Similarly trade with India is of huge potential given peace in the region. Access to cross over in each other's territory is not granted by either countries due to political or security issues.

CPEC is wished to be the game changer for the Transport sector and would revolutionize the sector in true sense if implemented in letter and spirit. It would result in huge investments in infrastructure of road and rail.

Pakistan has signed the TIR convention, TIR stands for Transports internationaux routiers (International Road Transport). In practice, it is an international Customs transit system for movement of goods by road across the borders of countries party to the TIR Convention. This system enables point-to-point transportation of cargo with least interference at international borders of the countries of origin and destination, and thus facilitates international trade and regional connectivity. Regional connectivity if achieved in practice will result in foreign trucking companies coming in Pakistan and Pakistani trucking companies' crossing over the border into other countries this situation might result in Joint ventures between local and foreign companies or direct competition between the two. In either scenario competition issues might arise. This also calls for greater communication between different Competition agencies of the region to address competition issues that might arise due to operations of Pakistani trucking companies in other countries and vice a versa. Preferential treatment towards local companies should be discouraged a level playing field must be ensured to drive the market forces towards providing the most efficient transport solution.

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The International Trade Centre implemented the Trade Policy Capacity Building Component of the European Union funded TRTA II programme. It is aimed at the Ministry of Commerce and Government of Pakistan in developing a coherent trade policy and attendant regulations for export competitiveness. Specifically, it will aim to reinforce the skills of government officers working in trade related ministries and implementing agencies on issues related to trade policy, commercial diplomacy and regulatory reform. The main way in which to achieve this through the institutional capacity building of key local training institutes, which is intended to have an immediate effect on the capacity of government officers working on trade policy issues.

In addition, Component 1 promotes comprehensive, regular and well informed public-private dialogue among the government, private sector and civil society for trade policy development, monitoring and evaluation. To promote local ownership and legitimacy of the dialogue, a steering committee comprising equal representation of the public and private sectors has been established with the formal approval of the Ministry of Commerce of Pakistan. Its mandate is to oversee the planning, implementation and monitoring of public-private dialogue on key issues. To better inform the public-private dialogue process, research studies are commission and internationally peer reviewed before dissemination to stakeholders. After extension of the TRTA II programme, Component 1 was assigned the additional responsibility of building the institutional capacity of the Competition Commission of Pakistan (CCP).

The targeted interventions of Component 1 to achieve these goals constitute the following:

Result for Component 1: Coherent trade policy and regulatory reform for export competiveness

1. The Pakistan Institute for Trade and Development (PITAD) institutional capacity is strengthened.
2. PITAD's and other research institutes' expertise on trade policy strengthened.
3. Government officers' capacity on specific trade policy and international trade negotiations strengthened.
4. Research studies contributing to the development of a national export strategy conducted.
5. Public-private dialogue for a coherent national export strategy is fostered.
6. Institutional Capacity of CCP is strengthened.

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