SECTOR ASSESSMENT (SUMMARY): TRANSPORT

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Pakistan had a total trade–gross domestic product ratio of 30% in 2013, which ranked it among the lowest in the world by this parameter. Pakistan’s total volume of trade with the rest of the world in 2013 reached $69.41 billion, comprising $24.46 billion worth of exports and $44.95 billion worth of imports. In 2013, the country’s five main export partners—the United States, the People’s Republic of China (PRC), Afghanistan, the United Kingdom, and Germany—together accounted for about 43% of Pakistan’s total exports. Pakistan’s main import partners—the PRC, the United Arab Emirates, Saudi Arabia, Kuwait, and India—together accounted for 55.4% of imports to Pakistan. Trade is comparatively low with regional neighbors, especially the landlocked Central Asian Republics (CARs) of Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Since 2010, trade with Afghanistan has exceeded $2 billion every year, with exports from Pakistan being 10 times higher than imports from Afghanistan. During the same period, total trade volume with all the CARs has not exceeded $100 million per year.

2. There is underutilized trade potential between Pakistan and the CARs. Pakistan can potentially export textiles, sport consumer goods, pharmaceuticals, fruits and vegetables, and construction materials to the CARs, while the CARs can potentially export grain, cotton, fertilizers, metal products, and minerals to Pakistan. Trade is restrained by complicated logistics along the land routes that connect Pakistan and the CARs through Afghanistan and the PRC. Estimates by freight forwarding companies show that short land routes from Islamabad to Almaty, Kazakhstan are more expensive than long multimodal routes.2

3. Depending on the route, the travel distance between Islamabad and Almaty is at most 2,400 kilometers. In the CARs and the Russian Federation, average cross-border road transport tariffs normally do not exceed $1 per kilometer for a 20-ton payload truck.3 As a comparison, current transport costs between Pakistan and Kazakhstan exceed this regional benchmarks by 5–6 times. The most critical factors contributing to the high cost of land transport between Pakistan and the CARs are the following: (i) security risks and costs in transit countries; (ii) unregulated traffic rights between Pakistan and the CARs, which requires transshipment of cargo between Pakistani trucks and trucks originating in the CARs;4 (iii) absence of a common customs transit guarantee mechanism, due to the fact that Pakistan and the PRC are not yet operational members of the TIR Convention;5 and (iv) slow and expensive border control procedures. Security is not an issue in trade with India, but even with the improvement of political and economic relations between Pakistan and India, trade is restrained by trade policy

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5 The Convention on International Transport of Goods Under Cover of TIR Carnets (TIR Convention) is a multilateral treaty that was concluded at Geneva on 14 November 1975 to simplify and harmonize the customs transit formalities of international road transport.
barriers. Furthermore, with the requirement to transship goods between Pakistan and Indian trucks at the Wagha border terminal, high logistics costs further limit the growth of cross-border trade between the two countries.

4. Due to the relatively short distance between the CARs and Pakistan, opportunities exist for increased usage of transport corridors in Pakistan to access the country’s deep sea ports of Karachi, Bin Qasim, and Gwadar. Pakistan’s seaports are already used for transit trade with Afghanistan within the framework of the Afghanistan–Pakistan Transit Trade Agreement (APTTA). The Government of Pakistan’s Federal Board of Revenue statistics for transit volumes transported within the APTTA framework, however, show a negative trend in traffic volumes starting from 2010, when the total volume of transit traffic from Pakistani seaports to Afghanistan through the land ports of Torkham and Chaman reached a historical maximum of 144,000 twenty-foot equivalent units (TEU) before falling to around 50,000 TEU per year in 2012 and 2013.

5. The downward trend in transit traffic via transport corridors in Pakistan has been caused by the following combination of factors: (i) long dwell times and high costs in the ports, caused by inefficient border control practices and insufficient operating capacity of border control agencies to conduct inspections of incoming containers; (ii) expensive customs transit guarantee mechanism under the APTTA; (iii) more efficient transport corridors via the Iranian port of Bandar Abbas, diverting transit traffic from Pakistan to Iran; (iv) long dwell times and high cost of border control at the land ports of Torkham and Chaman resulting from inefficient border control procedures and infrastructural bottlenecks.

6. Pakistan performs better than its CAR neighbors in time and cost associated with the logistical process of exporting and importing goods. The weakest elements of Pakistan’s trade logistics system are timeliness, and tracking and tracing. In terms of timeliness, Pakistan performs only marginally better than Tajikistan, worse than Kazakhstan and Uzbekistan, and substantially worse than India. Timeliness, which also contributes to cost of trade, can positively impact volumes of transit through Pakistan as well as trade volumes with landlocked CARs.6

7. Pakistan Customs showed substantially improvement from 2010 to 2014. In 2012, it was ranked as the best customs agency in the Central Asia region by the World Bank’s Logistics Performance Index, with a ranking of 46 out of 155 countries, and in 2014 it was ranked 58 among 160 countries. In 2012, Pakistan Customs started rollout of its Web Based One Customs system, which has helped achieve gradual reduction of paperwork and processing time. Pakistan Customs implements assessment of cargo pre-arrival information and uses risk management for selective customs inspections. However, control procedures by national security agencies have not yet been reformed, which results in delayed release of cargo that has already been cleared by Pakistan Customs. Multiple checks by various national security agencies contribute to long dwell times at seaports and land ports, and reduce the competitiveness of Pakistan’s trade logistics system.

8. Pakistan, along with the PRC, is in the final stages of accession to the TIR Convention. Under the convention’s customs guarantee, cargo from Pakistan will be transported under one international transit customs guarantee without additional customs procedures in transit states. In addition, the TIR Convention demands robust prescreening of road transport operators,

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vehicles, and drivers before they get access to the system. This will improve overall handling of logistics and security risks, improve transit time, and reduce logistics costs. Further reduction of risks at border crossing points through upgrade of physical infrastructure, and improvement of surveillance and information systems and technologies will contribute to a safer and more efficient trade logistics regime in Pakistan and the region. With reduced cost and time of transit trade, the volume of transit traffic between Pakistan’s seaports and the CARs is projected to grow substantially.

9. Pakistan’s border crossing infrastructure is stretched to its maximum capacity and needs to be upgraded to meet current trade and traffic volumes. The anticipated increase in traffic through the land ports of Torkham and Chaman as a result of Pakistan’s accession to the TIR Convention, and the projected increase in trade with India through the land port of Wagha as a result of ongoing trade policy reforms will lead to further increases in border crossing bottlenecks unless border crossing capacity is increased. Furthermore, if infrastructural issues are not properly addressed, increased congestion at the border crossing points with Afghanistan (Torkham and Chaman) could result in higher security risks.

10. Pakistan’s land ports of Torkham and Chaman face much better equipped border checkpoints at Torkham and Spin Boldak on the Afghan side of the border. The Afghan checkpoint Torkham was upgraded in 2006 with financing from the European Union, while a 2011 upgrade of the facility in Spin Boldak was financed by the United States and Canadian governments. The Afghan and Pakistani customs agencies maintain regular contact and information exchange. With financial support from the World Bank through its Second Customs Reform and Trade Facilitation Project, the two countries’ customs agencies investigate opportunities for establishing electronic data interchange between their information systems. Compared to Pakistan’s cooperation with Afghanistan along their shared border, cooperation between Pakistan and India along their shared border is low. The border is closed to Pakistani and Indian vehicular traffic, so cargo between the two countries has to be transshipped at the border. Currently, only transit traffic from Afghanistan on Afghan commercial vehicles is allowed to India without transshipment within the APTTA framework. Over the last several years, India and Pakistan have made inconsistent progress in improving bilateral trade and cross-border transport. Once their trade relationship is fully normalized, it is widely recognized that current trade volume between the two countries will increase substantially. The proposed design of the land port Wagha accounts for Pakistan’s future expansion of trade.

2. Government’s Sector Strategy

11. Focus on regional trade is one of the top priorities for the Government of Pakistan. Pakistan and the PRC are upgrading the Karakoram Highway, and the two countries have agreed to develop links to the port at Gwadar, with the goal of transforming it into an economic corridor. Pakistan is also prioritizing transport connectivity and has embarked upon development of major national highways. Pakistan’s membership in and association with regional organizations (Shanghai Cooperation Organization, South Asian Association for Regional Cooperation, and Economic Cooperation Organization) indicates its desire to further facilitate interregional cooperation and trade.

12. Vision 2025 is Pakistan’s long-term development blueprint, which aims to create a globally competitive and prosperous country providing a high quality of life for all its citizens.

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It aims to (i) promote energy security; (ii) promote sustained and inclusive higher private sector-led growth; (iii) promote modernization of infrastructure, including improving regional connectivity through trade corridors and motorways, and energy, water, and urban infrastructure; (iv) improve competitiveness in industry and trade; (v) enhance public revenues; (vi) introduce critical governance and institutional reforms; and (vii) harness social capital. The Government of Pakistan has established a high level decision-making body—the Integrated Transit Trade Management System—to work towards transforming Pakistan into a regional transport and trade hub.

3. **ADB Sector Experience and Assistance Program**

13. Established in 2001, the Central Asia Regional Cooperation (CAREC) Program brings together ten partner countries and promotes the implementation of regional projects in energy, transport, and trade, with the support of six multilateral institutions. Since 2001, the Asian Development Bank (ADB) has served as the CAREC Secretariat and supports Pakistan primarily through the CAREC Program. Pakistan joined the CAREC Program in 2010 and has participated in various activities and initiatives ever since. The six CAREC corridors, including their recent extensions through Pakistan, link the region’s key economic hubs to each other, and connect the landlocked CAREC countries to other Eurasian and global markets.

14. In 2013, CAREC member countries endorsed the CAREC Transport and Trade Facilitation Strategy 2020, which supports the extension of CAREC corridors 5 and 6 to Pakistan (i) from Kashgar (PRC) to Hasanabdal via the Karakorum Highway; (ii) from Chaman land port to Quetta and then to Gwadar Port via National Highways N-25 and N-85; and (iii) from Torkham land port to Peshawar and then south to the ports of Karachi and Bin Qasim via motorways M1, M2, M3, and M4 and National Highway N-5. The CAREC Transport and Trade Facilitation Strategy 2020 calls for a more integrated approach to improving transport and logistics infrastructure, and trade and transport facilitation. It includes 17 investment projects in Pakistan occurring during 2012–2017 with a total estimated value of around $5.6 billion. These projects cover extensive sections of the CAREC corridors in Pakistan through road, railway, and border crossing point projects.

15. In addition to developing road and border crossing infrastructure in Pakistan, ADB, through the CAREC Program, extends advisory and capacity development technical assistance to further enhance transport and trade facilitation in Pakistan and the CAREC region. CAREC regional technical assistance projects, administered by ADB, facilitate improvement of customs procedures in compliance with the Revised Kyoto Convention by setting up a regional transit customs guarantee mechanism, and implementation of integrated border management and joint customs control in all CAREC countries, including Pakistan. Following a decision of the 14th CAREC Transport Sector Coordinating Committee Meeting, ADB is facilitating a relaunch of transit operations along the Karakoram Highway within framework of the Quadrilateral Traffic in Transit Agreement among Pakistan, the PRC, Kazakhstan, and the Kyrgyz Republic. Through loans and grants, ADB has financed and continues to support (i) construction of border crossing facilities and logistics centers in CAREC countries, and (ii) development of electronic single-windows for trade and customs information systems to facilitate cross-border trade and transport, and regional economic cooperation.

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Problem Tree for Transport

Increased costs of trade results in underutilized export potential of Pakistan

High transit costs divert transit flows to competing corridors and reduce revenue of Pakistan sea ports

Lengthy time and high cost of cross-border transport

Physical constraints

Insecure, congested border crossing facilities result in more attention to security and insufficient attention to trade facilitation

Obsolete and insufficient border crossing infrastructure increase time, cost and risks for cross-border transport

No single point of responsibility for development, operations and maintenance of land port facilities

Insufficient ICT infrastructure to enable timely transmission of data for risk assessment

Procedural inefficiency

Insufficient qualification of government border control agencies, especially in the area of interagency coordination

Security concerns and lack of application of risk management principles contribute to congestion at sea and land ports

Lack of provision of preliminary information and ICT capacity for timely risk assessment of cargo, transport and drivers

Lack of interagency cooperation results in uncoordinated double checks, but insufficiently addressed risks

Regional cooperation and security issues

Insecure approach roads and risks in transit states increase time and cost of cross-border transport

Weak regional cooperation and poor implementation of cross-border transport agreements with neighbor states

No internationally recognized customs guarantee system, such as TIR system requires expensive customs bond security provision

A DB = Asian Development Bank, ICT = information and communication technology, TIR = Transports Internationaux Routiers.

### Sector Results Framework (Transport, 2016–2021)

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<thead>
<tr>
<th>Country Sector Outcomes</th>
<th>Country Sector Outputs</th>
<th>ADB Sector Operations</th>
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</thead>
<tbody>
<tr>
<td>Outcomes with ADB Contribution</td>
<td>Indicators with Targets and Baselines</td>
<td>Outputs with ADB Contribution</td>
</tr>
<tr>
<td>Transit and intraregional trade increased through improved access to external markets</td>
<td>Transit trade volume via Pakistan increases to 100,000 TEU by 2022 (2013 baseline: 50,000 TEU)</td>
<td>BCPs along CAREC corridors renovated and improved</td>
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<td>Time taken to clear BCPs reduced</td>
<td>Cross-border processing time for exports reduced to 3.0 hours for Torkham (2015 baseline: 5.5 hours), 4.8 hours for Chaman (2015 baseline: 8.0 hours), and 4.4 hours for Wagha (2015 baseline: 7.6 hours) in by 2022</td>
<td>PLPA established to support effective cross-border operations, and facility maintenance and improvement at BCPs</td>
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<td>Cross-border processing time for imports reduced to 1.6 hours for Torkham (2015 baseline: 3.3 hours), 3.7 hours for Chaman (2015 baseline: 6.2 hours), and 3.3 hours for Wagha (2015 baseline: 5.1 hours) by 2022</td>
<td>Capacity of PLPA and border security agencies to manage and operate cross-border facilities and controls meet required standards</td>
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**ADB** = Asian Development Bank, **BCP** = border crossing point, **CAREC** = Central Asia Regional Economic Cooperation, **DFID** = Department for International Development; **ICT** = information and communication technology, **PLPA** = Pakistan Land Port Authority, **TEU** = twenty-foot equivalent unit.