

Development of Shipping Sector in Pakistan: Options and Proposed Strategy

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Abstract

With the dawn of the modern era the leading nations of the world have realized that with increasingly shrinking rate of land resources focus needs to be laid towards exploiting maritime resources as an equal alternative. In this regard the developed modern nations of the world have built considerable infrastructure to fully accrue the benefits which lay in the uncharted marine sector. The geographical location of Pakistan is such that it intersects the sea lines of communication (SLOCs) immersing from the three main choke points in the Indian Ocean i.e. Strait of Melaka, Strait of Hormuz and Red Sea. Pakistan can take advantage of its location by developing maritime infrastructure all along its coast. Owing to land fixated mindset, Pakistan is already late in realising the true potential of its huge maritime sector and the progress in this field has been deemed slow. However after the manifestation of China Pakistan Economic Corridor (CPEC) with a cost of US\$ 46 Billion contract linking Gwadar port with western China there is a realization of developing the maritime sector of Pakistan. Although Karachi shipyard is on the road to recovery and has started making profit with recently received orders from Pakistan Navy, Karachi Port Trust and Pakistan Maritime Security Agency for Ship Construction, still there is a need for viable economic reforms. It appears that the Pakistan Ship breaking Industry is in shambles working without safety and health security. The recent incident of accidental fire on 1st Nov 2016 at Gadani dictates that entire industry needs to be restructured on modern lines. The current state of affairs of Pakistan National Shipping Corporation can be judged by the fact that a fleet of only nine ships is being maintained which presently only lifts five percent of the national cargo. Keeping in view the depleting state of maritime relating organizations it is recommended that Pakistan Merchant Marine Policy be revised to meet the challenges of the prevailing scenario.

Keywords: Shipping sector, Pakistan, Sea line of communication (SOLCs)

Background

The Indian Ocean Region (IOR) includes 37 littoral and 11 hinterland states making a total of 48 independent states (Kaplan, 2011, p.11). The region is home to some 2.6 Billion inhabitants who make up 40 percent of the world population (Suresh, 2012, pp.13-14). Today the energy factor multiplies the

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significance of the Indian Ocean exponentially. Nearly one out of every three barrels of oil lies beneath two countries: Saudi Arabia with 259 billion barrels and Iraq 112 billion, while the gulf region has nearly forty five percent of the world gas reserves (The North Arabian Sea and Pakistan, USA). Pakistan has been blessed with more than 1000 Km of coastline at the top of North Arabian Sea in the Indian Ocean Region. Pakistan's location is strategically important because of the principal oil shipping lanes, as well as the main navigational choke points of the world commerce – the Straits of Bab el Mandeb, Hormuz and Malacca. Forty percent of seaborne crude oil passes through the state of Hormuz at one end of the ocean, and 50 percent of the world's merchant fleet capacity is hosted at the Strait of Malacca, at the other hand, making the Indian Ocean the globe's busiest and most important interstate. Throughout history, sea routes have been more important than land ones, writes Tufts University scholar Felipe Fernandez – Armesto, because they carry more goods more economically. The sea silk route from Venice to Japan across the Indian Ocean in the medieval and early modern centuries was as important as the silk route proper across Central Asia "Whoever is the lord of Malacca has his hands on the throat of Venice," went the saying. Another proverb had it that if the world were an egg Hormuz was its yolk (Kaplan, 2011, p.7). Gwadar Port is located at the mouth of strategically important gateway of the Hormuz. Thus the importance of Pakistan shipping industry is increases manifold.

It is evident that the shipping industry forms the backbone of a country's economy. It is a highly complex, competitive and capital intensive sector and requires long term planning due to ever increasing thrust of technology and competition in the market. The importance of this sector in the financial system of any country can not be neglected as it is viewed by many economists as an index of prosperity of a state.

Pakistan is blessed with a unique coastal geographical position and has sea frontage stretching to the West till Iranian border and South-East till Sir Creek. About 36,000 ships transit through our area of interest each year. Pakistan's coastline dominates sea traffic to and from the Suez Canal, Arabian Sea and Persian Gulf on one side and India and Far East on the other. Afghanistan largely depends on Pakistan for its imports and exports. Likewise, with the development of Gwadar Port, the newly emerged landlocked Central Asian Republics (CARs) could utilize this Pakistani port for their trade. Similarly China's trade to Middle East from its western province, which is close to the borders of Pakistan, is planned to be routed through this port. It will make Pakistan a big market to exploit and provide tremendous potential for the growth of its shipping sector.

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Pakistan relies on sea transportation for over 95 % of its imports and exports which must flow freely through Pakistan's single sea strategic communication system for survival and sustenance of the nation at all times, may it be peace, tension or war. As already discussed, more than ninety five percent of Pakistan's trade being sea borne and most of POL imports coming from the Gulf makes their continuous and safe passage an absolute necessity. With legal settlements of the boundary claim for Continental Shelf, Pakistan has added another 50,000 sq km to its EEZ. With regards development of maritime infrastructure along the arid Makran coast, Gawadar deep sea port is a major commercial undertaking, with prospects of becoming a trans-shipment port in the region in near future (Ahmed, 2015, p.53). For all this trade a credible merchant marine is our compulsion. Due to recent economic recession in the world, the Global Trade has dwindled and so is shipping and shipbuilding industry. The shipbuilding and ship breaking industry of Pakistan was no exception. Our industry is also a victim of ill planning, lack of vision oriented policies and political interests. Drastic steps are required to revamp this industry, so that it can contribute towards national progress.

Aim

To carry out critical analysis of the shipping sector of Pakistan and to find causes of downfall with a view to suggest options and strategy to improve the overall shipping infrastructure of Pakistan in near future.

Historical Perspective of Pakistan's Shipping Industry

At the time of independence, the shipping business was managed by private ship owners in Pakistan, who built the national fleet of merchant ships from scratch. The National Shipping Corporation (NSC) was formed in 1963 by the Government of Pakistan (Decline in Scrap Ship Imports, 2007, p.22). The fleet strength of Pakistan's merchant fleet reached 71 large oceans going ships in 1970, owned by 9 private shipping companies and the National Shipping Corporation. The creation of Bangladesh was instrumental towards reducing the fleet strength of Pakistan to 57 ships.

In 1974 like many other industries, shipping was also nationalised in Pakistan. Nine private shipping companies, which had a total of 26 ships merged to form Pakistan Shipping Corporation (PSC). The national fleet strength increased to 51 vessels including 26 with the nine nationalized companies plus 25 ships with the state-owned NSC. In 1979, the two corporations (PSC and NSC) were merged to form Pakistan National Shipping Corporation (PNSC). During the Fifth Five-Year Plan PNSC procured 14 ships instead of planned decision of acquisition of 19 ships causing a loss of 5 ships in the bureaucratic

procedures. These ships were considered most unsuitable in all aspects. Subsequently, National Tanker Company (NTC) was formed and procured one tanker that too was scrapped later. Thereafter the NTC was also merged with PNSC. Presently PNSC has 9 ships destined to be scrapped in a couple of years. Present fleet PNSC is carrying just about 5% of the national seaborne cargo while the rest is shared by the foreign shippers. The Federal Government has introduced a Merchant Shipping Policy 2001 to boost private investment in the shipping sector by giving many incentives. The real motive behind these incentives is to revive the shipping sector, to create job opportunities for public and generate the related business activities in the country.

Elements of shipping industry of Pakistan

The shipping industry is the business committed to moving goods, oil and or passengers by water. Movement of goods and Oil from one place to other via sea has been the major component of shipping. More so, shipping sector does not only contribute towards economic growth by carrying import and export to and from the home port but also helps significantly towards national economy by providing the initiative for setting up of support and other related industries. Establishment of these shipping related industries does not only provide substantial jobs to the masses but also helps the country by saving/earning foreign exchange as well. In order to have prosperous shipping industry, Government of Pakistan needs to pay attention to various components of the same. The most important elements of the shipping industry in Pakistan are generally as under.

- a. Pakistan National Shipping Corporation (PNSC)
- b. Karachi Shipyard and Engineering Works (KS&EW)
- c. Ship Breaking Industry

Pakistan National Shipping Corporation (PNSC)

Pakistan National Shipping Corporation (PNSC) is an autonomous corporation that functions under the overall control of Ministry of Port and Shipping. PNSC handles all kinds of cargo including rice, fertiliser, iron ore, coal and wheat. It is also a major carrier of crude oil for the country. Presently PNSC has only 9 ships as appended below (Obaidullah, 2014, p.57):

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Table: Available 9 Ships with PNSC

Ship	Built	Acquired	Type	DWT
Sibi	2009	2011	Bulker	28,442
Hyderabad	2004	2011	Bulker	52,951
Malakand	2004	2010	Bulker	76,830
Chitral	2003	2010	Bulker	46,710
Kaghan	1986	2006	Bulker	65,716
Quetta	2003	2008	Tanker	107,215
Lahore	2003	2010	Tanker	107,018
Karachi	2003	2010	Tanker	107,081
Total				642,207

Source: International Maritime Symposium, Pakistan Navy War College 14-15 May 2014

The Shipping in Pakistan is in public sector with only 9 modern vessels having a DWT of just over 600,000. Pakistan, with 98% of its total trade being seaborne, spends approximately US\$ 3.5 Billion as freight charges on its imports and exports. Its sea borne trade is approximately 67 M tons per annum of which maximum are carried by foreign vessels (Obaidullah, Indo-Pacific - the Super Maritime Region of the 21st Century, 2015, p.113).

Water borne transportation is the cheapest means of transportation; distantly followed by pipeline, rail and road. Economics of scale is big ships which can carry big volume which result in saving of lot of money on cost of transportation. Haulage through water is much easier and big ships can be towed by small tug boats. Comparison of POL transportation charges (rupees / metric ton / km) is manifested below (Rao, 2014, p.51):

Table: 24 Transportation Economics

	Rupees / Metric Ton / Km
Sea	0.15
Pipeline	1.02
Railways	1.27
Oil Tankers	1.79

Source: International Maritime Conference 2014 held at Bahria University Karachi

Table: History of Shipping in Pakistan

Year	Milestone
1947	Only 3 ships in private sector
1960	Increased to 41 ships in private sector
1963	National Shipping Corporation (NSC) launched in public sector
1974	Private shipping nationalized to form Pakistan Shipping corporation (PSC)
1979	NSC & PSC merged to form PNSC. Total 48 ships
1992	Private Shipping again permitted – 48 licenses issued
1993-96	Four groups added 9 vessels Tri Star, Ray Shipping , Dewan Shipping
2001	Liberal Shipping Policy announced
2006	Mega container Line*
*None survived beyond approx 2-3 years operation	

Source: Pakistan National Shipping Corporation Head Office Karachi

Present fleet of PNSC handles about 5% of the country’s trade, particularly oil imports, in terms of value, and 26.43% in terms of tonnage. Contrary to the general impression, the listed company is handling more tonnage on nine ships, younger and bigger than 48 old small ships it operated a decade back. According to World Trade Organization data, Pakistan imported \$45 Billion and exported \$ 25 billion last year, accounting for a mere 0.37% of global trade, showing enormous scope for expansion. The trade per capita was projected at \$425 and the trade-to-GDP ratio at 33.8%. Leading shipping and logistic experts talk bitterly about how a potential sector was ‘systematically crushed’ over the past 40 years. Despite the natural advantage of geography and demography and economic benefit of rising demand of import and export, they did not see much future for shipping (Subohi, 2015).

Karachi Shipyard and Engineering Works (KS&EW)

Karachi Shipyard is strategically located in north Arabian Sea in Indian Ocean and is providing Shipbuilding and Ship Repair facilities to local and foreign customers. The major local customers include PN, PNSC, PMSA, KPT, PQA, GPA in the public sector and wide range of customers in the private sector have been well served over the past six decades, Facilities installed, are suited to build and repair medium size ships up to 18,000 TDW and multipurpose cargo vessels up to 26,000 TDW. Various workshops and facilities make Shipyard completely independent of any outside support for its

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production and repair activities. Machine Shop, fully equipped shipbuilding halls, Fabrication Shops and Foundry for cast iron and non ferrous metal were created to support Shipbuilding and Ship Repair in the most efficient manner. Having three building berths, two dry docks and long Quay-walls, the shipyard has the capacity to undertake simultaneous repair and construction of several ships. The layout of the shops is perfect to ensure smooth flow of raw, semi processed and finished for shipbuilding activities with utmost efficiency. Since its inception, Karachi Shipyard has constructed and delivered over 445 Crafts for PN, KPT, PQA and several foreign clients including China, Iran and UAE (Obaidullah, Indo-Pacific - the Super Maritime Region of the 21st Century, 2015, p.114).

Warship construction KS & EW

During mid 90s, KS&EW entered into construction of warships; when it built a missile craft (PNS SHUJAAT) for Pakistan Navy. Later in 1996, lifting capacity dock of 4000 ton was delivered to PN for repair and maintenance of PN fleet. KS&EW has also being associated with the construction of the most intricate portion of Augusta 90B Submarine i.e. the pressure hull and associated non-pressure structure. KS&EW's work on the pressure hull has won quality recognition by Direction des Constructions Navals-France, The recent accomplishment of KS&EW includes construction of two Small Tanker cum Utility Ships, F-22P Frigate PNS ASLAT, Fast Attack Craft (Missile) PNS DEHSHAT, various tugs, dredge tenders, utility vessels etc. The F-22P Frigate and Fast Attack Craft (Missile). Now a fleet tanker for PN is under construction at the same year. With all these construction order, Karachi shipyard is now on road to recovery.

Ship Breaking Industry

If ship breaking industry in Pakistan is not taken seriously, the incidents like one occurred on 01 November 2016 will keep taking place. Around 20 workers lost their lives and more than 60 were badly injured by burning, when fire broke out in an oil tanker at Gadani. Actually the vessel was not fully drained of oil when the dismantling work commenced. As a result explosion ripped through the oil tanker at Gadani ship breaking yard. Owing to negligible health and safety facilities, many precious lives were lost. Casualties could be many more as more than 70 workers were found missing, must be trapped in fire ball (Hassan, 2016).

Pakistan's ship-breaking industry had been in a state of coma for the last few decades due to discriminatory policies adopted by the past governments in order to protect the interests of steel-melting industrial units in the country.

One single largest factor in the decline of this business has also been the rapidly changing tariff structure. Moreover, there has been a huge decline of USD 16.028 Million, or 65.17%, in Pakistan's imports of scrap ships during July-August 2007, as compared to USD 46.021 Million in the corresponding period of last year due to higher demand for steel in the international market. India and Bangladesh has emerged as Pakistan's main competitors, as there importers are offering higher prices than do their Pakistani counterparts. As a result of current crisis, Gadani, which used to be the biggest ship breaking yard in the region in early 1980s, is today facing an uncertain future partly because of a substantial increase in international prices of scrap ships and partly due to levy of higher import duty. While Gadani has fallen on bad days, India and Bangladesh seem poised to fill the gap, as they have promptly lowered the duty on imports of ships scrap. The slowdown in Pakistan's ship breaking industry is meanwhile costing the economy much more than loses in tax revenue as hundreds of steel re-rolling and re-melting mills owe their very existence to the ship breaking industry. The decline in Pakistan's ship breaking industry has been gradual: from one million tons annually in the 1980s, to the drastic low of today is obviously the result of defective policy decisions. However, as a result of the policy measures adopted by the present government, including reduction in duty on scrap for ship breaking from 15 percent to 10 percent, ship-breaking activities are picking up at a fast pace. For its part, the ship-breaking industry has been a source of raw material for steel products although the volume of its input has been quite low if seen in a larger context. Aside from providing an alternative supply for the steel industry, the country's main ship-breaking yard at Gadani is also a centre of economic activity in an otherwise impoverished area in Balochistan. These developments may provide new jobs to about 6,000 persons in the industry, which presently employs some 12,000 people.

In Pakistan on the 10 km long beach 50 miles west of Karachi, across an area of 1,256 hectares exactly on 132 plots, the ship breaking activities are performed in Gadani open yards. Generally approximately 100 vessels per year are brought for breaking at Gadani, from Europe, through beaching method (Masood, 2016, p.149). However, beaching method is not allowed under EU Rules. The renowned Ship Breaking Methods other than beaching method used at Gadani are Slipway (Aliaga), Dry Docking (Developed Countries) and Alongside (China). Previously Pakistan, Bangladesh and India were famous for ship breaking in the region now China and Turkey are also active players in this specialized field. During 80s the industry was on her full boom, but gradually the decline started due to unfriendly government policies regarding continuous changing tariff, tax, and duty (Shahzad, 2014, pp.100-103).

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Subject industry has been a source of raw material for steel products although the volume of its input has been quite low if seen in a larger context. Aside from providing an alternative supply for the steel industry, the country's main ship-breaking yard at Gadani is also a centre of economic activity in an otherwise impoverished area in Balochistan (Birkett, 2016). Gadani Ship Braking yard received a total of 111 vessels in 2014, 124 vessels in 2012, 105 vessels in 2013.

Ship breaking yards of Gadani are the dominant employer in the Balochistan province and also a major source of revenue. The SDPI estimates that currently around 850,000 people are involved directly or indirectly in the Pakistani ship breaking industry. Eighty percent of ships scrapped at Gadani are oil tankers. Almost all breaking yards prefer oil tankers, as around one-third of the world fleet comprises of oil tankers and, in comparison to other types of vessels, tankers are scrapped relatively quickly, and secondly tankers have a huge ratio of steel, so that a huge range of vessel materials can be recycled. On the other hand dismantling of Oil tankers is very risky as cutting welding can caught fire instantly.

In Pakistan the golden period of ship-breaking industry is considered to be between years 1969 to 1983. Another study reveals that one of the world largest ship breaking industry during 1982-83 was having more than 30,000 direct employees while more than half a million people made a living out of the industry and was earning valuable Foreign Exchange for Pakistan. At present, 68 plots are operational in the Gadani ship breaking yard, which are run by 38 operators and employ more than 12,000 workers who came from all over the country. The industry pays around Rs.5 billion in taxes each year. Pakistan received 111 vessels for dismantling in 2014 compared to 105 vessels in 2013 and 124 in 2012. Globally, 1,026 ships were dismantled in 2014 compared to 1,213 ships in 2013 (Khan, 2016, p.5).

International agencies have shown many concerns on ship breaking industry of Pakistan. The studies indicate that "incorrect storage and inadequate dealings with hazardous substances in combination with the common practice of ship dismantling (beaching method) indicate negative impacts for the health of innumerable laborers' and environment, including the maritime ecological system of the Pakistan coastline". The hazardous substances get into the environment; toxic fumes are released into the air and pose a risk for human health. More so the fumes of oil and paint on ship are prone to caught fire. The bad incident of 1 November 2016 is one such example in which 20 precious lives were lost when fumes of oil caught fire on board. The international concerns are appended below:

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- a. Workers Health and Safety
- b. Inhuman working condition
- c. Lack of protective gears
- d. Lack of mechanized equipment
- e. Accidental deaths
- f. Damage to environment
- g. Hazardous materials from ships pollute surrounding environment, specially beach and surrounding marine environment.

If above mentioned measures not adopted in true letter and spirit at Gadani, yet another incident of same nature can take place, as held on 1 Nov 16. In fact Gadani is the perfect example of the neglect of maritime sector of Pakistan. The blame cannot be attributed to any specific department; rather it's the will of the official sitting on the helms of affairs. The model ship recycling facility should be affordable for the local entrepreneurs; it should be labor intensive, so that labor does not lose their employment opportunity (Masood, 2016, p.151). More so, a simplified Ship Breaking Guidelines (preferably in Urdu) is to be developed for illiterate workers for their safety and security. The proposed model ship recycling facility may accommodate necessary equipment, such as cranes, pulleys and other basic items to make the working condition safer. Pre-cleaning of ships before recycling should also be considered to avoid the fire incidents like one held on 1 November 2016. To remain viable in this international industry however, Pakistan needs to shift towards green ship recycling and should deal with hazardous materials by following international standards. China has taken a big leap forward by establishing its ship breaking industry alongside its ship construction industry to efficiently conduct green ship recycling and convert ship breaking into ship construction activity (Obaidullah, Indo-Pacific - the Super Maritime Region of the 21st Century, 2015, p.113).

Having discussed various elements of the Shipping Industry of Pakistan, one can conclude that it virtually collapsed and was left with 9 vessels owned by PNSC. The management is sincerely trying to mitigate the losses of past and finds it difficult to show Pakistan Flag worldwide due to this small fleet. Presently a huge number of ships owned by Pakistani owners are under Flag of Convenience (FoC) register and our own nationals are reluctant to bring their ships under Pakistani flags. Lots of serious considerations are required

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for the growth of merchant fleet and to find lucrative employment to Pakistan trained seafarers in the global scenario, addressing impediments of post 9/11 scenario. On the other hand ship building industry can become the country's great asset due to its potential and would contribute to the uplift of national economy. Since 2006, the number of orders for KS&EW has been doubled; i.e PMSA, KPT, Port Qasim and Pakistan Navy are continuously placing orders for their ships building, repair and maintenance comprising of Millions of rupees. The next 50 years will see a growing demand for new ships which would increase from 30 Million DWT a year now to 90 Million DWT a year in 2055. Moreover, the ship breaking industry is also moving at faster pace due to policy measures adopted by present government, including reduction in duty on scrap for ship breaking from 15 percent to 10 percent. Nonetheless safety and health security measure are still question able at the site.

Up until the late 1960s, ships were dismantled in the countries of their origin. As the pressure for environmental regulations and occupational health and safety standards increased in the wake of international laws and treaties, the rich countries played smart-circumventing laws, changing flags and started selling their old ships to middlemen who would then sell it to scrap metal profiteers in South Asia. Gradually, in the 1980s, the ship-breaking industry came to be moored on the beaches of Pakistan, Bangladesh and India.

The workers toil without protective gear helmets, goggles, boots, gloves at danger our heights, and live in makeshift huts at Gadani without electricity, safe drinking water or medical facilities. There is no inspection and monitoring of the hosting and hauling equipment, the dangerous work processes or the work conditions.

Apparently, the only requirement before a ship is beached and broken is for a no-objection certificate to be issued by the Balochistan government's Environmental Protection Agency after the submission of an impact assessment. Although Pakistan is a signatory to the Basel Convention, no compliance legislation is in place. A labour inspection system hardly exists, and violations of the Factories Act, 1934 and relevant environmental laws are rampant.

Now is an opportune time for civil society groups to engage in judicial activism and initiate public interest litigation. The case law against prevalent ship-breaking practices has been of help in Bangladesh and India. In 2009, Bangladesh's Supreme Court decision to shut down domestic ship-breaking yards that do not possess environmental clearance has helped further the cause of green methods of ship recycling. Also, the government must pay

heed to recommendations put forth by the SDPI in its 2013 report for turning this bleak trade into a green industry (Hisam, 2016, p.9).

Gwadar Port and its Impact

Located at the mouth of Gulf, Gwadar has immense Geo-strategic significance on many accounts. The Gwadar deep sea port expansion project is under construction as now it is linked with China Pakistan Economic Corridor (CPEC) at a cost of 46 billion dollars, and when this vision is realized, it will be transformed into a futuristic gateway for trade for the complete region. Considering the Geo-strategic imperatives, the project is considered to be an alternate to the Gulf ports to capture the transit trade of the Central Asian Republics (CARs) as well as the trans-shipment trade of the region. The project would step up trade and development activities generate employment and help attract investment in Pakistan and at the same time the project will also increase the development activities in the province of Balochistan, the neglected province of Pakistan.

Reasons for Selection of Gwadar

Main reasons for selection of Gwadar site are:

- (1) Reduce congestion & dependency on existing ports complex at Karachi/PQA.
- (2) Socio economic uplift of the province of Balochistan.
- (3) To capitalize on opportunities for trade with landlocked CARs and Afghanistan.
- (4) Its location is close to the international shipping lanes and is suitable for trans-shipment facilities.
- (5) Promotes trade and transportation with Gulf States.
- (6) Trans-shipment essentially of containerized cargo.
- (7) Unlock the development potential of hinterland.
- (8) Diversion of influx of human resources from up country to Gwadar instead of Karachi.
- (9) To establish Export Processing and Industrial Zones.

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- (10) Serve as an alternative port to handle Pakistani trade in case of blockade of existing ports.
- (11) Farthest from eastern neighbor of Pakistan, thus, provides more warning time against air threat during any future war.
- (12) Offers natural protection against weather.
- (13) Have sufficient room for expansion in future.

New Trade Potentials for Pakistan

In view of development of Gwadar Port, the new trade potentials for Pakistan are elucidated in ensuing paragraphs:

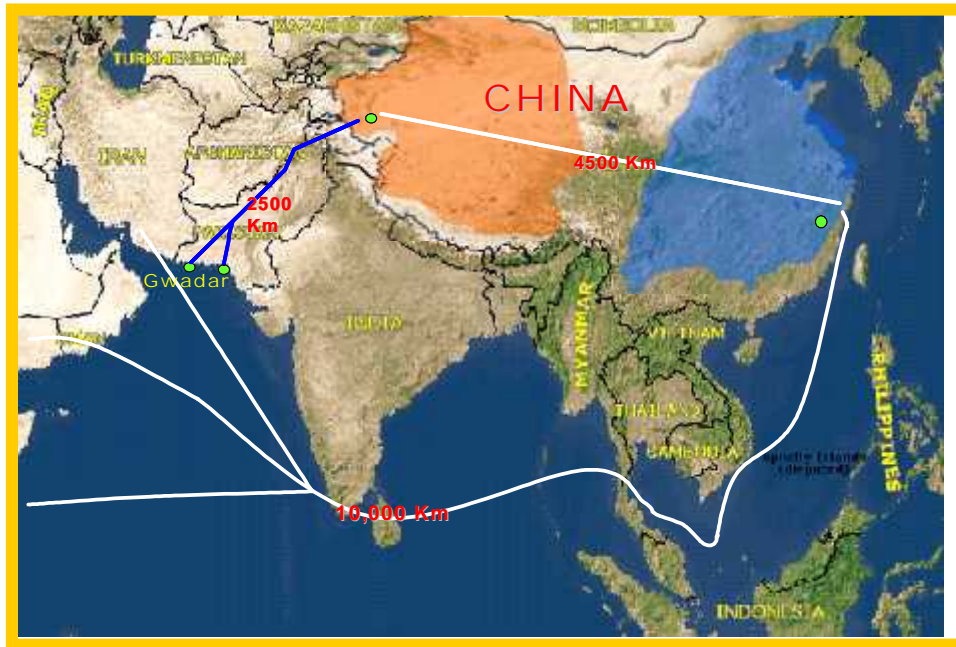
In flow of Trade from Central Asian Republics

The total population of CARs is around 65 million, which is distributed amongst 6 states. Amongst these 6 states, Uzbekistan, Tajikistan and Turkmenistan, have close geographical proximity with Pakistan and may be the potential users of Gwadar Port. The total international trade in terms of weight and volume is approximately 80 million freight tons. Exports, which are our main focus of attention, include cotton, metal ores, machinery, gas and oil. The road distance from Turkmenistan to Gwadar is only 1200 Km whereas; the nearest Black Sea port of Odessa in Ukraine is approximately 3400 Km away from CARs. Thus Gwadar becomes the most viable option available with CARs. A 500 km long highway connecting Gwadar with CARs via Panjgur, Chaghi and Rabat, up to Herat is therefore required.

Trade with China

The trade prospects with China are envisaged to evolve with the construction of Gwadar port. China has triggered the western development strategy in late 1990s. China's cheaper labour force, rich natural resources and potential huge market have drawn the attention of western regions. The southern tip of huge Xingjian autonomous region is 4500 km from Chinese ports located on the eastern coast but only about 2500 km from Gwadar Port as appended below.

Map: Distance between Chinese and other Ports



It is expected that China's use of Gwadar Port for exports originating from western region will provide her preferred option over the ports located along her eastern coast. Thus it may be logically visualized that Gwadar port will be an integral part of the China's Foreign Trade route in near future. The existing Karakoram highway connects western China with Pakistan. With further expansion and upgrading of this traffic artery and proposed linkages with Gwadar via three (Eastern, Central and Western) routes of CPEC, western China will have easier access to Gwadar in near future.

Trade with Afghanistan

Afghanistan has seen many ups and down after 9/11 and now with little stability looking for future development of her trade infrastructure. The country is, desperately looking for finding new avenues in order to boost her economy although her present import/export is through Pakistan using ports at Karachi complex. The country is full of natural resources like world's largest deposits of copper and high-grade iron ore. Besides this, the country possesses reserves of oil, gas, coal and precious stones. Once the conditions in Afghanistan become conducive for exploitation of this productive potential, it

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will trigger a formidable momentum of trade activity, which would need operationally feasible and economically viable sea trade through Gwadar Port. Pakistan needs to provide more connectivity by constructing new roads, motorways and highways.

Shipping policy 2001

An obsolete Merchant Shipping Act of 1923 governed and regulated shipping in Pakistan, until 2002 (Iqbal, The Most Neglected Sector of National Economy, 2007) due to which neither maritime infrastructure was developed nor merchant marine flourished. Attention of relevant stake holders of Pakistan was drawn in this regard but due to the appointments of non-professionals at the helm of the organizations relating to maritime sector nothing appreciable could be framed. Several governments attempted to frame Merchant Shipping Bill to replace the obsolete Act of 1923 but failed bitterly.

Nonetheless, in order to attract investors, the new Pakistan Merchant Marine Policy 2001 was announced on 10 July 2002. Inputs of public, private sector experts and professionals as well as other stakeholders were also incorporated in the policy prior approval. The main objectives of this new policy were:

- a. To encourage Pakistan flag carriers in private sector.
- b. To create a conducive environment that would help in the growth of the maritime sector.
- c. To de-regulate by providing a free environment for investment.
- d. Enhance competitiveness of country's merchant marine fleet through induction of new vessels and efficient marine services.
- e. Ensure efficient operation of Country's ports, harbours and related services according to International Standards.
- f. Augment foreign exchange earnings by increasing the capacity of National flag carriers; thus reducing the present foreign freight bills.
- g. Expand and upgrade Pakistan Merchant fleet to increase the present share of cargo from 5% to 40% by year 2020 to meet the United National Conference on Trade and Development criteria.

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- h. Upgrade the Human Resource Development Facilities as per International Maritime Organization (IMO) Conventions to train Pakistani mariners in accordance with international requirement.
- j. To revive our shipbuilding industry and expand it to cater for at least 20% shipbuilding and 50% repair and maintenance needs of the National fleet.
- k. The policy also proposes that ship owners of any trading vessel either bareboat or chartered under Pakistani flag be exempted from import duties and surcharges till 2020.
- l. Shipbuilding and ship repair be classified as category “A” industry and entitled to all incentives contained therein.
- m. In lieu of income tax; a tonnage tax USD 1.0 Gross ton per annum irrespective of profit or loss be charged from the ship owners.
- n. Ports to provide 10% reduced rates for all vessels berthed for repair and maintenance.
- p. Ports will give equitable treatment to ships/crafts owned by private sector for berthing and use of other port facilities at par with public sector vessels.

The Pakistan Merchant Policy 2001 was aimed for acquiring more vessels which were suppose to augment present inadequate fleet and to facilitate new investors as well as to update all laws and regulations in maritime sector in accordance with modern requirements and International Conventions. Nonetheless, so far nothing has been added to shipping industry, this dictate further reforms and rewriting of subject policy.

Salient Features – Formulation of Merchant Marine Policy

In order to frame a viable Merchant Marine Policy and Act of a country; it is imperative to consider the following salient features (Iqbal, 2005):

- a. A committee need to form to actively study the overall global scenario of world shipping; its legislation, strength and development.

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- b. To take into account the national sea borne trade requirements including that of provisions for taking active participation of global sea borne trade.
- c. Relevant rules, regulations, and acts to be framed in strict conformity, with the requirements of International Codes, Practices and Maritime legislation.
- d. To ensure that the rules and regulations framed are crystal clear without any ambiguity and are fully elaborated and defined thereby leaving no avenue for administrative lacunas/ misinterpretation.
- e. To appoint professional technocrats of merchant marine at the helm of affairs in the merchant marine organizations to ensure proper implementation of the various sections of the Shipping Policy and Act in order to obtain optimum efficiency, profitability, expansion of merchant marine and gainful utilization of the national and overseas finances.
- f. To curb upon all means of Administrative and Operational mismanagement, inefficiency, mal-practices and device a strategy to use meager available funds for maritime development in best national interest.

Analysis of Pakistan Shipping Sector

Although Pakistan is a maritime state, with wide ranging maritime infrastructure, assets, and potential, but unfortunately the riches that can be obtained with the development of shipping sector have been denied to Pakistan due to land fixated mindset of decision makers sitting at the helms of affairs. Therefore, neither the shipping sector could flourish nor major additional ports were developed in the past. The private sector also moved out with the nationalization of Shipping Industry. There have been no consistent and long term policies to boost the shipping sector. It is nothing, but lack of comprehension and foresightedness. Now, after signing the US\$ 46 billion contract of CPEC linking western china with Gwadar, time has come that immediate attention needs to be paid towards this sector and try to make up years of neglect. The causes of downfall of shipping industry in Pakistan are as under:

- a. The private sector of Pakistan was attracted by the foreign shipping companies since nationalisation of 1970s. Presently a huge number of ships owned by Pakistani owners are under Flag of Convenience

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(FoC) register, their Pakistani ships owners are reluctant to bring their ships under Pakistani flags and to register with PNSC.

- b. Ports and shipping is a very highly technical, scientific and complicated subject. The changes and development of ship design, cargo handling techniques, advancement of technology, use of electronic systems, modern communication techniques, all warrant that the affairs of merchant marine should be entrusted to professionally qualified technocrats of merchant marine who are fully abreast with commercial shipping and unless such a policy is implemented it is impossible to have any development and progress in the shipping sector.
- c. Unfortunately, none of the democratic political parties in Pakistan have anything relating to maritime affairs in their party manifesto. Thus when they appoint politically motivated persons for such jobs without any experience they don't deliver. It is imperative to adopt a policy to induct suitably educated, qualified, experienced and those conversant in the fields of disciplines where they are given authoritative positions, including an honest system of accountability so that some progress is made. It is very important to change present approach especially in the maritime affairs to obtain the desired results of having a strong profitable and prosperous merchant marine.
- d. Years of neglect, absence of long-term policies and the non-implementation of the ones which were ever devised, have taken a heavy toll on the local shipping. There was no shipping policy and the one which was followed was outdated. Although 'Pakistan Merchant Marine Policy 2001' announced in 2002 was to "facilitate and attract private sector investment in shipping," but so far nothing has been added to Shipping Industry. Now once again this policy needs revision.
- e. As mentioned earlier, at present PNSC operates only 9 ships and handling only five percent of national cargo. The fleet combination is also unsuitable to meet modern trade requirement. Ministry of Port and Shipping have to strive hard to induct private entrepreneurs and induct more vessels in the fleet.
- f. There was discrimination between the public and private sector and equal opportunities were not provided to the private sector. The "Right of First Refusal" and cargo preferences were given to the PNSC over the private sector, which led to elimination of healthy competition and resulted in a stalemate.

Development of Shipping Sector in Pakistan

- g. Unfortunately we have not utilised the talents and expertise of our skilled manpower in both the public and private sectors (Rehman, 2005). Our neighbour and other countries like China, Philippines and Ukraine have utilised the talents and expertise of their technical and skilled manpower and its updating through periodical training, which has resulted in the earning of huge remittances from the seafarers alone serving on foreign vessels. Moreover, Indian seafarers employed on foreign ships remit over USD 1 Billion to their exchequer whereas Pakistani seafarers who used to remit USD 70 Million were jobless after 9/11 and are discriminated against. They find hard to survive and it is great loss to exchequer of Pakistan.
- h. KS&EW flourished initially and built ships not only for own shipping industry but also for the regional as well as other countries around the globe. The repair work from Karachi Port Trust and Port Muhammad Qasim Authority also died with the passage of the time and these organizations started depending on foreign companies. Another factor responsible for the downfall of the KS&EW was the lack of patronage on the part of the government. But now the KS&EW is on road to recovery with the help of Pakistan Navy.

Conclusion and Recommendations

Conclusion

The Shipping Sector is a multi-faceted challenge and calls for wide ranging policy measures in a number of areas. Owing to scarcity of resources on land, the energy starving world is taking a paradigm shift toward redefining their economic and energy sources. To keep pace with the world Pakistan should also take similar measures. Shipping industry will play a pivotal role in this regard especially in WTO regime where reduction in quotas and tariffs will bring in more competition amongst the countries and more reliance on ports for trans-shipment of their products at lowest possible cost. Pakistan must focus on developing new ports and make structural changes in existing ones to improve their capacity to handle greater volume/tonnage of cargo at minimal costs and save major portion of foreign exchange which previously used to be expended in sea borne trade, by hiring foreign flag vessels. All this can only be achieved by creating awareness both in public and private sectors and taking major policy decisions. Pakistan must explore new vistas for bilateral trade with CARs by offering them new sites for construction of deep sea ports all along the Pakistani coast on turnkey basis. Same model of Gwadar as concluded with Chinese must be followed with other regional countries. Nonetheless, Taking transit port charges at Gwadar will also pay

rich dividends. Although zebra-e- Azeb is in its culmination phase but still, we must address internal security concerns in Balochistan and help development of ports at best possible speed to accrue maximum benefits in an earlier timeframe and keep pace with growing demands of shipping industry. Moreover, providing the legal cover to the new shipping policy and its effective implementation at the earliest possible is necessary to give it the needed sanctity. As is, the last policy was never provided the legal cover. If efforts are made to revive this Industry in true letter and spirit then shipping in the 21st century will be a new ball game of professionals only. Gone are the days of monopolised trade and now we can only survive, if we are competent to survive in free market economy.

Recommendations

The economic progress of Pakistan will depend largely upon the effective utilization of its strategically located seaports, their effective management, up gradation of facilities and provision of land based routes. This would ensure the optimum exploitation of this natural resource gifted to Pakistan. Proposed strategy in shape of recommendations is listed as under:

- a. Shipping policy may be reviewed and declared every year like trade policy. The yearly shipping policy may incorporate the existing developments and changes cropped in the intervening period.
- b. Private sector may be encouraged to enter the shipping business by:
 - (1) Issuing free licenses.
 - (2) Providing incentives like withdrawal of duties and tax holiday.
 - (3) Ensuring safety of investment.
- c. Efforts may be made to encourage CARs to participate in the development of Gwadar Port by offering them joint ventures in the exploitation of our Exclusive Economic Zone.
- d. Special funds may be allocated to import merchant ships or construct them within Pakistan in order to expand present small merchant fleet and to cater for upcoming Gwadar Port.
- e. Efforts may be made at government level to bind the foreign shipping companies to render their services during the period of hostilities and escalation or during war as well.

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- f. Bilateral agreements with neighbouring and other countries may be rectified so as to eliminate the existing constraints and to enable the participation of Pakistani Flag for more cargos originating from Europe and America, thereby more business.
- g. The technological base of the KS&EW may be based on latest technology and R&D facilities. Moreover this sector may also promise good investment opportunities to the investors in order to earn a lot of capital.
- h. Pakistani ship owners may be persuaded to bring their ships under Pakistani flags by providing adequate financial and regulatory concessions.
- j. Efforts may be made to further strengthen economic ties with China in order to enhance its interests for more joint ventures in Pakistan like Gwadar Port and CPEC. More Ports and related maritime infrastructure must be developed with the help of China all along the Pakistani Coast.
- k. Government may ensure concrete measures for the protection of Chinese workers at Gwadar Port. Security, law and order situation in Balochistan may be controlled and dealt with iron hands.

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