



Comparative Analysis of Logistics Performance Index (LPI) of Pakistan and Iran: Future Prospects of Trade with Afghanistan

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1. Logistics Performance Index (LPI)

Logistic performance index (LPI) is an interactive, internationally developed tool to explore the performance of trade logistic services among trading countries, its level of competitiveness and area of improvement. This index is published on a biannual basis by the World Bank. LPI uses survey technique to compare the trade aspects among 160 countries globally. It covers the responses of global freight forwarders and express carrier on custom clearance process, quality of infrastructure in terms of trade and transport, quality of the shipment process, quality of the logistics service, the tracking and tracing control of consignments and timelines followed.

LPI is measured on a scale of 1 to 5 where 5 shows optimum score, illustrating an improved range of performance in trade related logistic services. The logistic performance scores of trading countries are used to rank them globally (International LPI Global Ranking, 2016).

2. Context of the Study

The transit trade between Afghanistan and Pakistan is supported through Afghanistan-Pakistan Transit Trade Agreement (APTTA) which, however, is confronted with different economic and political issues (Husain & Elahi, *The Future of Afghanistan-Pakistan Trade Relations*, 2015). Lately, the role of Iran has enhanced significantly where it has surpassed Pakistan and became the leading importer to Afghanistan in 2015-16, while Pakistan is still leading export destination for Afghanistan (Statistical Year Book, 2015-16). Shipping delays, surcharges and corruption are highlighted as leading elements of frustration for business entities in Afghanistan while trading with Pakistan (Zabiullah Jhanmal, 2016). Keeping the above in view, a comparative analysis was undertaken to observe the performance of both Pakistan and Iran on trade logistic services to understand the perceptual gap and highlight the actual scenario.

3. Comparative Logistics Performance Index Score and Ranking

Pakistan and Iran both have improved their LPI ranking by 3 and 16 indexes, respectively, within a period of last 4 years. Although the improvement in ranking of Iran is more significant as compared to Pakistan but still Pakistan led the overall LPI ranking in contrast. However, it is clearly evident that the gap has reduced from 41 indexes in 2012 to 28 indexes in 2016, as illustrated in Table 1.

	2012	2014	2016
Iran	112	114	96
Pakistan	71	72	68

Table 1 LPI Ranking of Iran and Pakistan

The LPI score of Iran and Pakistan have shown an improvement of 4.4 percent and 3.18 percent respectively since 2012. Although the LPI score of Pakistan declined from 2012 to 2014 by 0.33 points, but significantly improved from 2014 to 2016 by 0.42 points, as illustrated in Figure 1.

China is actively involved in infrastructure development process of Pakistan in the form of China-Pakistan Economic Corridor (CPEC) project, therefore it is predicted that it will have a further significant impact on the LPI score and ranking of Pakistan (Ramay, 2016).

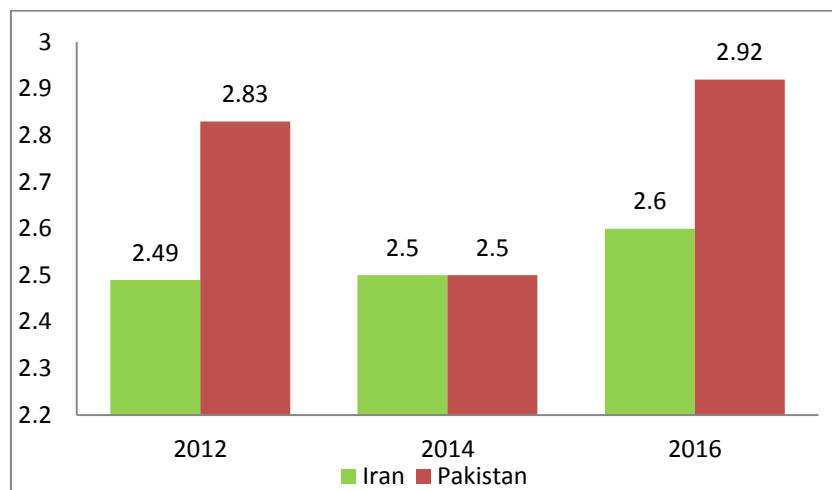


Figure 1 LPI Score of Pakistan and Iran

4. Analysis of factors considered under LPI

The comparison of critical factors under LPI is done for both Iran and Pakistan for the period of 2012 to 2016, to determine the progress in different aspects of logistic services of both the countries which have its ultimate impact on the trade with Afghanistan.

4.1 Customs Clearing Process:

Customs clearing process evaluates the quality and competence of service of customs agencies, transparency of customs clearance, provision of adequate and timely information on regulatory changes, clearance and physical inspection time.

The international ranking of Iran in the customs clearing process has improved by 16 indexes since 2012 while Pakistan’s ranking has worsened by 25 indexes for the period under analysis. Custom delays and custom officers’ unfair behavior are stressed as factors responsible for the declining reputation of Pakistan’s customs clearing process (Husain & Elahi, *The Future of Afghanistan-Pakistan Trade Relations*, 2015). It is clearly evident that Pakistan has still the dominancy on Iran in the customs clearing process, but that gap is rapidly reducing, which must be point of consideration for customs’ officials as it has a direct impact on the overall LPI ranking of Pakistan.

	2012	2014	2016
Iran	126	133	110
Pakistan	46	58	71

Table 2 Custom Clearing Process Ranking of Iran and Pakistan

The score of Iran has progressively improved by 0.14 points or 6 percent since 2012 while the score of Pakistan has reduced by 0.19 points or 7 percent. It shows that score of Pakistan is declining more rapidly as compared to the rate of improvement in the score of Iran. Institute of Strategic Studies highlighted uneven behavior of custom officers, unsound practices and impediments in customer clearance, en-route theft and inadequate legal provisions, as responsible factors for deteriorating performance of Pakistan in this context (Dilawar, 2016).

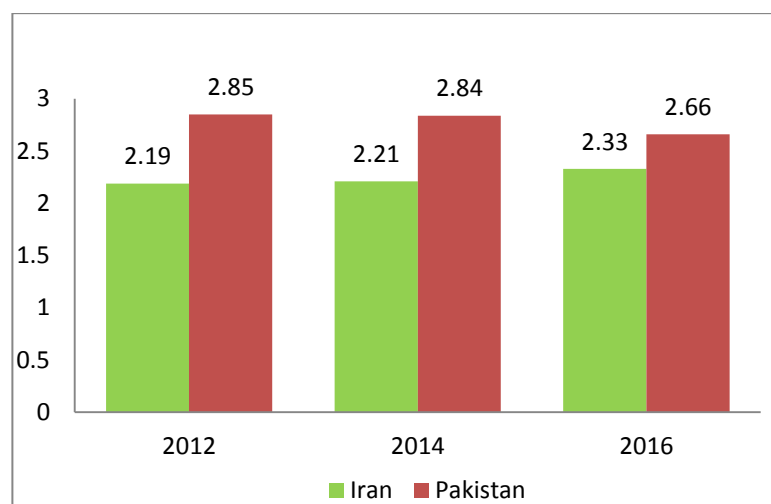


Figure 2 Custom Clearing Process Score of Pakistan and Iran

4.2 Infrastructure Quality:

Infrastructure quality assesses the condition of trade and transport related infrastructure (e.g. ports, railroads, roads, information technology).

The infrastructure ranking of Iran has improved by 28 indexes since 2012, whereby a significant increase of 25 indexes has been observed in the last two years only. While Pakistan has improved very slightly by 3 indexes since 2012 and has been stagnant in last two years. The current infrastructure, including weak roads and the port structure, is identified as the challenging factor to trade expansion of Pakistan with Afghanistan (Mumtaz, Hafeez, Khetra, & Rafique, 2016). Although, Pakistan has still higher ranking in comparison to Iran, but the gap is almost removed and both the countries are at comparative level.

	2012	2014	2016
Iran	100	97	72
Pakistan	71	69	69

Table 3 Infrastructure Quality Ranking of Iran and Pakistan

The infrastructure score of Iran has shown double digit growth, i.e. 10.3 percent from last year, which is very noticeable improvement. The Chabahar port of Iran is playing a significant role in attracting foreign direct investment in the infrastructure development to access Central Asia to explore the trade opportunities with landlocked countries (Mumtaz, Hafeez, Khetra, & Rafique, 2016). The infrastructure score of Pakistan had declined in 2014 but has shown very slight improvement of 1 percent in last two years. The current condition clearly indicates that soon Iran will surpass Pakistan, however, recent Chinese foreign direct investment of US \$46 billion (a grand project that is predicted as a game changer for Pakistan) has provided an avenue for the development of strong infrastructure base and will improve the regional trade position of Pakistan with neighboring countries (Ramay, 2016)

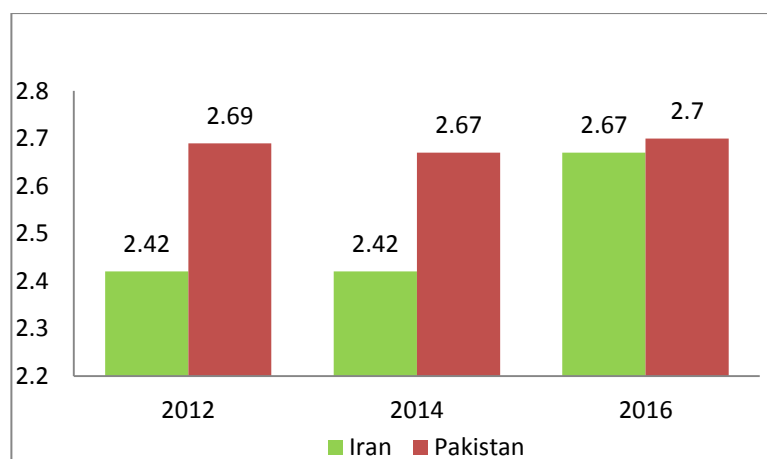


Figure 3 Infrastructure Quality Score of Pakistan and Iran

4.3 International Shipment Competence:

International Shipment measures the ease of arranging competitively priced shipments to varying markets. The international shipment ranking of both Pakistan and Iran has improved by 4 indexes and 28 indexes respectively since 2012. Although it is more evident in the case of Iran in comparison to Pakistan but still Pakistan has superiority over Iran and there is a significant gap between the two countries, i.e. 22 indexes that shows comparative advantage of logistic services of Pakistan in comparison to Iran. It is important to note that the international shipment ranking of Iran has improved for last two years while Pakistan has faced with reduction in international ranking that is critical.

	2012	2014	2016
Iran	115	124	88
Pakistan	68	56	66

Table 4 International Shipment Ranking of Iran and Pakistan

The score gap of international shipment between Pakistan and Iran has reduced from 0.37 units in 2012 to 0.26 in 2016. There is a positive trend in international shipment logistic services of Iran while Pakistan improved by 0.59 points in 2014 but declined by 0.15 units in 2016. Poor maintenance of operational crafts, lack of development of old vessels, deterioration of pilot tugs and pilot boats are highlighted as significant factors that are responsible for degraded performance of international shipment at Karachi port (Zabiullah Jhanmal, 2016).

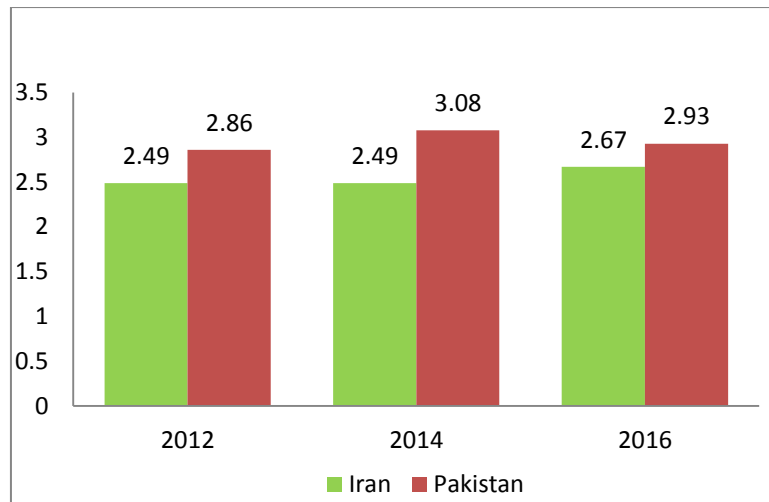


Figure 4 International Shipment Score of Pakistan and Iran

4.3 Logistics Quality and Competence

This factor evaluates the overall level of competence and quality of logistics services (e.g. transport operators, customs brokers, etc.). The level of Iran has improved by 5 indexes since last four years, whereas Pakistan has shown decline by 3 indexes in 2014 but improved quite significantly by 7 indexes in last two years. It is a positive sign regarding logistic performance of Pakistan and reflects a competitive edge of Pakistan over Iran in international ranking.

	2012	2014	2016
Iran	87	83	82
Pakistan	72	75	68

Table 5 Logistics Quality and Competence Ranking of Iran and Pakistan

The score of both Pakistan and Iran has improved by 0.4 percent and 1.8 percent since 2012. Although both the countries have shown a positive trend, but improvement rate is more significant in case of Pakistan. It has also increased the score gap between the two countries from 0.10 points in 2012 to 0.15 points in 2016 in support of Pakistan that clearly indicates the dominance of Pakistan in logistic quality and competency over Iran.

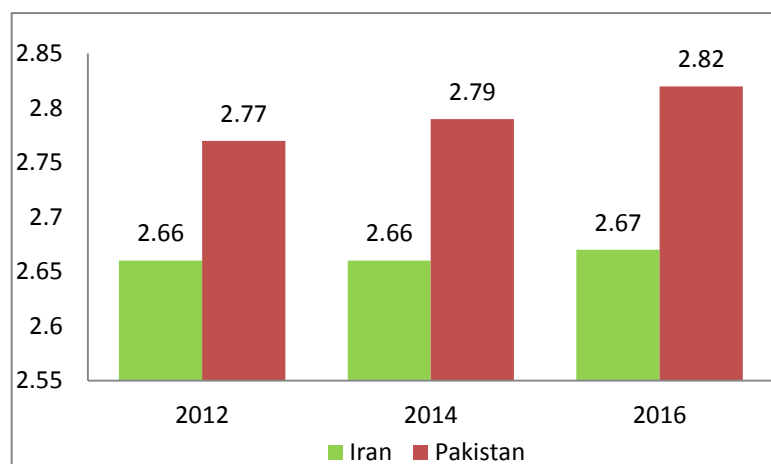


Figure 5 Logistics Quality and Competence Score of Pakistan and Iran

4.4 Tracking and Tracing of Consignments:

Tracking and tracing measures the performance of technology used to follow-up the consignments' movement and reach. There is an opposite trend in international ranking of Pakistan and Iran in tracking and tracing factor. The ranking of Iran has declined by 3 indexes in 2016 while the ranking of Pakistan has improved by 23 indexes in 2016 since last four years. It has increased the gap between the two countries and has made the level of competency of Pakistan in the region more significant in comparison to Iran.

	2012	2014	2016
Iran	108	123	111
Pakistan	90	86	67

Table 6 Tracking and Tracing Ranking of Iran and Pakistan

Similarly, the tracking and tracing score of Iran has declined by 2 percent in last four years while Pakistan has shown improvement of 11 percent. The tracking and tracing score gap has increased between the two countries in favor of Pakistan. It shows positive improvement instead of contradictory discussions on different platforms.

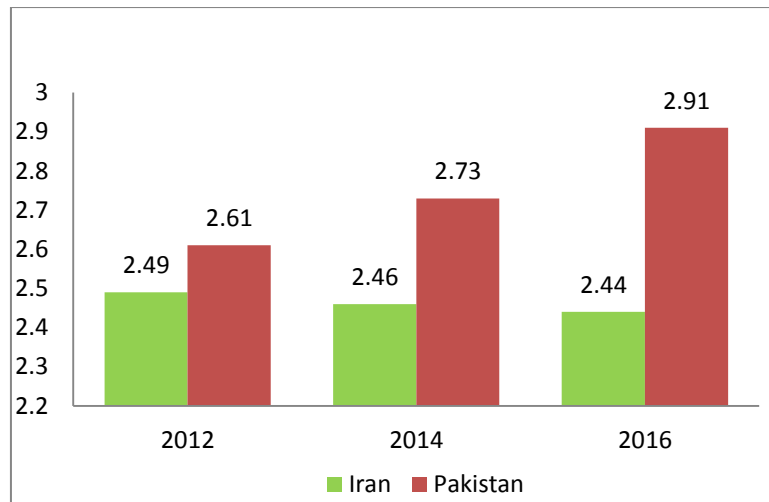


Figure 6 Tracking and Tracing Score of Pakistan and Iran

4.5 Timeliness:

Timeliness shows that frequency with which shipments reach destination within the scheduled or expected delivery times. The improvement is visible here for both the countries; however, Pakistan has improved its international ranking by 25 indexes while Iran has only improved by 22 indexes in last four years, which shows clear dominance of Pakistan.

	2012	2014	2016
Iran	138	141	116
Pakistan	83	123	58

Table 7 Timeliness Ranking of Iran and Pakistan

The comparison of score clearly indicates that Pakistan and Iran have improved by 10 percent and 5.6 percent, respectively, however the rate of improvement is far better for Pakistan. This significant improvement is also enhancing comparative advantage for Pakistan.

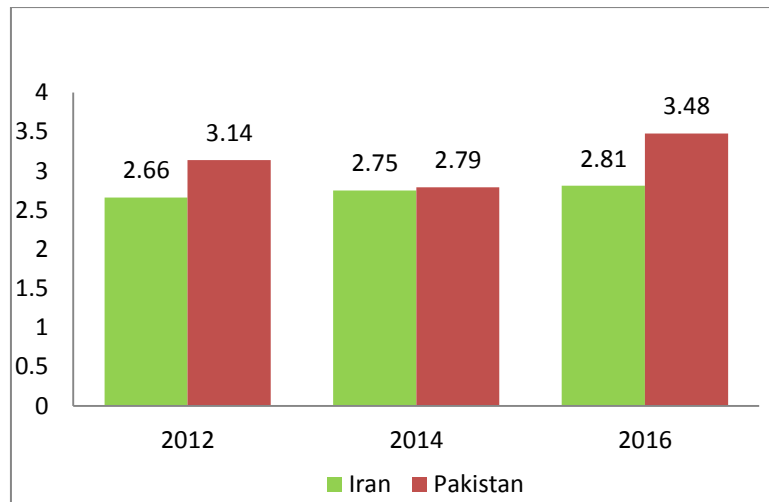


Figure 7 Timeliness Score of Pakistan and Iran

5. Conclusion and Recommendations

Generally, inferences from discussion on different platforms indicates overall deterioration of LPI with respect to Pakistan. However, this study clarified this perceptual misconception and reflected that:

- Pakistan is still in a far better position as compared to Iran in terms of logistics performance ranking internationally, but the customs clearing process is worsening that needs the attention of concerned authorities on an immediate basis.
- Similarly, trade infrastructure is affected due to weak road & port structure and lack of interest by concerned bodies that is impacting consignment handling capacity for international shipments, but a positive factor is recent investment of China in China-Pakistan Economic Corridor (CPEC) project and Gwadar port which will improve the infrastructure base of Pakistan.
- Pakistan has significant competitive advantage in international shipment, tracking and tracing mechanism and logistics' quality & competency that positively addresses the mis-perception about hindrances in transit trade between Pakistan and Afghanistan.

It is, however, critical for relevant ministries and official bodies to invest in training of staff, expediting and refining the customs clearing process and investing in infrastructure base to regain the competitive edge.

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