

## **Downfall of Local Shipping Industry of Pakistan - A Case Study of Pakistan National Shipping Corporation**

Muhammad Adnan Yousuf, Tahir Ali

*Karachi University Business School, Pakistan*

adnan\_yousuf12@hotmail.com, tahirali@uok.edu.pk

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### **Abstract**

The purpose of this study is to comprehend the reason of downfall of local shipping industry of Pakistan as to why the only local shipping company of Pakistan i.e. Pakistan national shipping corporation is covering only 10% of shipping business of Pakistan and the rest 90% of the business is happening through foreign shipping companies in Pakistan. Overall services provided by the shipping lines and vessel count are the most important factor in selecting the shipping line for customers for their consignment. An online survey was conducted to acquire responses from the associates of shipping companies who are operating in Pakistan; those associates holds key position and role in their department. Questionnaires were sent to all shipping lines representative who are operating in Pakistan. Questionnaires were sent to 200 individuals and out of these 200 respondents 60 usable responses were received having a response rate of 30%.

**Keywords:** Pakistan shipping industry, Pakistan National Shipping Corporation, shipping service quality, selection of shipping lines, Pakistan National Shipping Corporation vessels

### **Introduction**

Pakistan is one of the major sourcing origins for many global retailers, making it the world's 54<sup>th</sup> largest export economy (OEC, 2017) and shipping industry plays a very pivotal role in economic growth. Pakistan's shipping industry has devolved to a point where there is only a single, government-owned, shipping company active in the market which is Pakistan National Shipping

Corporation (PNSC). Much of the misfortune which has befallen the indigenous shipping industry can be chalked down to two major events in Pakistan's history, namely separation of East Pakistan and nationalization policies of the seventies.

Nearly 85 percent of Pakistan's total international trade (of about 100 million tons) is carried out by foreign ships on which we spend almost \$6 billion yearly. This case study will allow us to understand the main reason as to why Pakistan with having a trade of over \$70 billion have a minuscule local shipping sector and why PNSC the last bastion of indigenous shipping company of Pakistan is just doing 5% of business in Pakistan compared to foreign shipping lines who are operating in Pakistan.

The inspiration of this paper is kindled by literature where authors have emphasized on the fact that overall service quality provided by shipping be it handling of consignment, freight charges, on time sailing, transit time accuracy, technological advancement, coverage of freight loss and damage plus response rate from shipping and availability of vessels (vessel counts) are the most important factors for customer when selecting the shipping lines for their consignment.

Pakistan gives millions of dollars as freight charges to foreign shipping companies. This is a big loss to our economy and our imports and exports. This loss can be avoided if our national shipping company increases its fleet of ships. By doing so, it will contribute million dollars to our economy, besides producing more job opportunities for our seafarers, especially fresh graduates who are facing a severe job crisis.

This research paper highlights the reasons of downfall of local shipping industry of Pakistan and low market share of PNSC as compared to foreign shipping companies. The indicators of factors of questionnaire were identified and analyzed through extensive literature review and discussion

with expert of freight transportation, i.e., interviewing expert of foreign shipping company who holds a key position in the company and has extensive experience in the Pakistan shipping industry. An online survey was also conducted with representative of different shipping companies of Pakistan to support this study.

### **Performance of Shipping Sector in Pakistan and All over the World**

Shipping industry is the life blood of the global economy without shipping, intercontinental trade, the bulk transport of raw materials, and the import/export of affordable food and manufactured goods would simply not be possible. Seaborne trade continues to expand, bringing benefits for consumers across the world through competitive freight costs. Thanks to the growing efficiency of shipping as a mode of transport and increased economic liberalization, the prospects for the industry's further growth continue to be strong. There are over 50,000 merchant ships trading internationally, transporting every kind of cargo. The world fleet is registered in over 150 nations, and manned by over a million seafarers of virtually every nationality.

As per figure 1, the global shipping container market was worth about 4.6 billion U.S. dollars, and its size is expected to reach 11 billion U.S. dollars by 2025. Between 2017 and 2025, as mentioned in the figure. Further as per

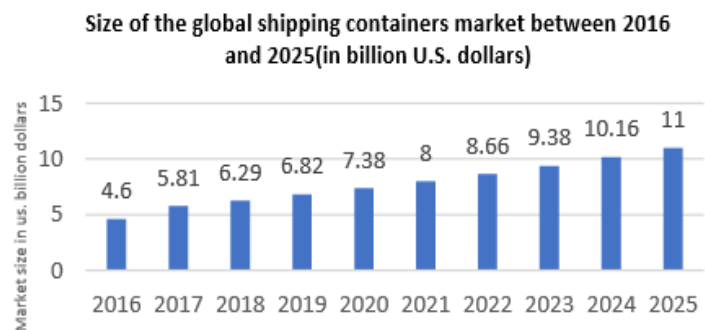


Figure 1: Worldwide, Statista; Persistence Market Research; 2016

the said source the market size of this sector was forecasted to grow at compound growth rate of 8.3 percent.

As per the stats available on World Bank website, as also mentioned in figure 2, 90% of the trade is happening through shipping industry, this figure is showing the stats of world's total trade happened from 2008 to 2018.



Figure 2: The World Bank

Figure 3 is showing top 10 shipping lines of the world. The data is collected from statista.com. As per the chart Denmark based AP Moller Mearsk is the world's biggest shipping lines with having 668 vessels. The next biggest shipping line is Switzerland based shipping company MSC with having 569 vessels which are operating all over the world including Pakistan. Third biggest shipping line of the world is CMA CGM with having 522 vessels and 4<sup>th</sup> one is COSCO shipping company with having 487 vessels.

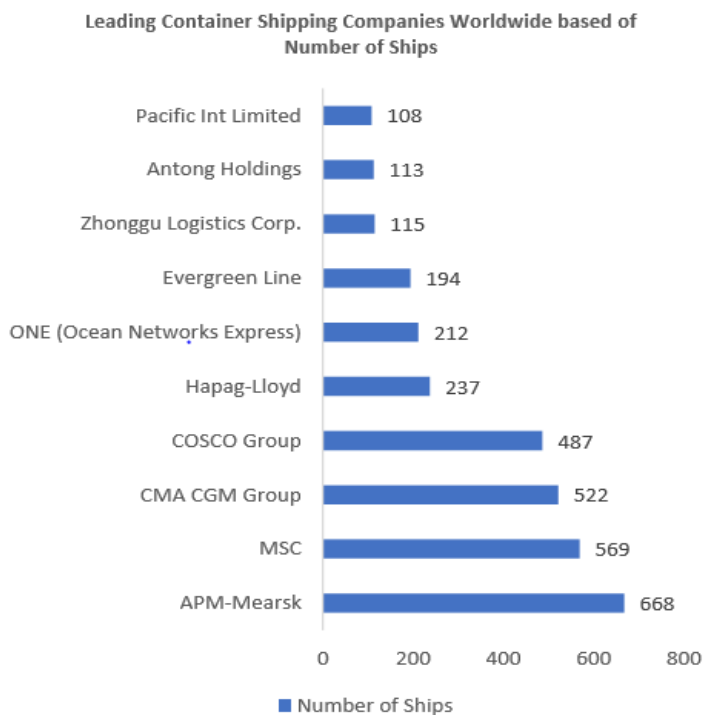


Figure 3: Statista.com

Figure 4 is showing total import and export business happened in Pakistan through sea from 2008 to 2019, aforementioned figure is the clear depiction of how big this sector is in Pakistan and great potential is available if Pakistan is able to develop its local shipping

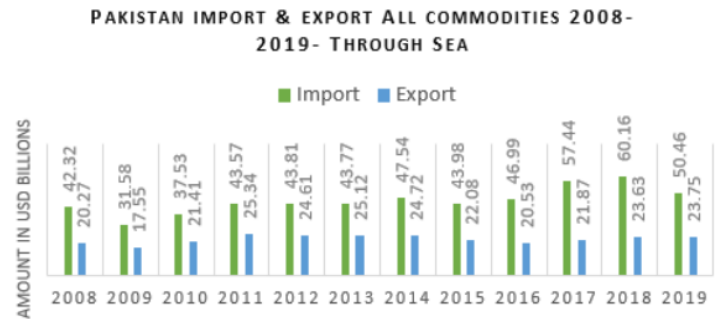


Figure 3: Trade Economy, Annual International Trade Statistics by Country

sector by not only reviving the PNSC but by also encouraging and by paving the way for private sector to launch shipping companies in Pakistan, as currently only 5% of Pakistan’s total trade happening through sea is covered by PNSC and rest is happening through foreign shipping lines. This will help Pakistan to strengthen its economy.

Table 1 shows top 15 container shipping lines by total Twenty Foot Equivalent Unit (TEU) executed in Pakistan. The data has been retrieved from customs manifest and used only for the research purpose as it remains highly confidential.

**Table 1: Top 15 Container Shipping Lines**

S.No.	Line	TEUs
1	MAERSK	83,050
2	MSC	76,972
3	APL	44,770
4	SAFMARINE	39,878
5	CMA	36,741
6	UASC	34,249
7	OOCL	26,609
8	W. H. L.	22,164
9	HAPAG LLOYD	21,640
10	COSCO	21,545
11	NYK	17,908
12	HANJIN	16,224
13	HYUNDAI	14,333
14	K. M. T.	13,110
15	A. N. L.	12,536

## Pakistan National Shipping Corporation (PNSC)

Pakistan National Shipping Corporation is an autonomous corporation that functions under the overall control of Ministry of Port and Shipping. PNSC handles all kinds of cargo including rice, fertilizer, iron ore, coal and wheat. It is also a major carrier of crude oil for the country. Presently PNSC has only 8 ships; Table 2 shows the details.

**Table 2: PNSC Total Ships**

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
<b>Total</b>				<b>642,207</b>

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. 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.

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.

### 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	

### Literature Review

Enna Hirata (2019) in her study featured that digitalization has changed the business world effectively quite a while back for different enterprises, and in shipping industry in the previous scarcely any years. A few organizations in shipping industry have begun digitizing the procedures that used to be done physically, for instance, booking, documentation, following and installment through EDI or API association, online gateway or versatile applications. These sorts of computerized arrangements are being offered during the start to finish procedure of a shipment venture, which empowers new understanding to shippers and improved proficiency in business forms.

Chao and Chen (2014) proposed a research model consisting of four constructs and six hypotheses to examine how switching cost helps prevent the customer from switching their shipping line. The impact of perceived service quality on customer loyalty was proved significant for customers with high satisfaction levels.

Nawaz and Raja (2004-2012) explained in their study that development of shipping industry is important for Pakistan both in terms of economic growth and national security. A healthy shipping industry can save foreign exchange expended on freight charges, earn additional revenues, provide added 98 employment opportunities, and most importantly protect and promote domestic trade from unfavorable rise in freight and insurance charges. In terms of national security, a well-developed national merchant marine reduces the dependence on foreign carriers, which may not assure continuous supply in case of war or heightened tension. This is especially relevant in case of Pakistan where national merchant marine transports only 5 percent of the total cargo and risk of a conflict with neighboring India in future remains a possibility.

Srinivas, Steven and Subhash (2000) examined issues pertinent to service recovery and service satisfaction in the business-to-business setting of ocean freight shipping. Shipping managers of several manufacturers and trading companies evaluated their satisfaction with factors affecting the post-performance service activities related to service recovery. They also evaluated overall satisfaction with the most preferred shipping line. Results clearly indicate that managers belonging to the group that expressed higher satisfaction with claim handling, complaint.

Harrison, A., and Fichtinger, J., (2013) in their study explained that improvements in mean transit time have the expected impact on key inventory performance indicators. There is no significant difference if the improvement comes from different stages in the D2D transportation chain. Improvements in variability have different impacts, depending on the source of the variability and



the frequency of the shipments. The highest inventory reduction potential arises from a combination of high reliability and improved frequency. Furthermore, companies felt that there should be a mutual understanding as to how the data would be manipulated or presented. The prime example in this instance is transit time.

Belci, G. and Cetin I. B. (2017) stated in their research paper that customer expectation in container shipping industry is increasing at a rapid pace, so shipping organization must need to use their resources effectively to meet the expectation. Further they explained that shipping organization must adopt marketing tactics such as price discrimination and personalized marketing communication. Further shipping companies identify needs and wants of different customer group, must work on their customer services area and develop new services and must work on improving existing one.

Muhammad Ammar Alam (2019) explained that since shipping industry is growing globally and the business as well, therefore, the growth of shipping from 638,307 active vessels to double by 2020 worldwide; currently vessels are 638,307 around the world which by 2020 vessels will be increased.

## **Methodology**

### **Design of Research Methodology**

This research collects feedback from representative of various foreign shipping companies who are operating in Pakistan, who hold a key position in their respective companies.

In the questionnaire, respondents were asked to provide feedback regarding overall services of PNSC and as well as regarding vessel related activities.

Questionnaires were distributed to 200 individuals through online survey; and out of these 200 respondents, 60 usable responses were received having a response rate of 30%. Measurement scale used in questionnaire was from very high to very low.

### **Data Analysis**

After getting the data through online survey through “Google Form”, we gathered all the data for analysis through “Google Forms” where we got thorough analysis of each factor mentioned in our questionnaire.

As per the analysis, 55% of respondents believed that PNSC is providing low overall services to its client while 42% believed PNSC provide very low services compare to foreign shipping lines and rest 3% believed their services are average.

Further regarding handling of consignment by PNSC, as per the result of the survey, 58% of the respondent do not believe they had bad experience and that PNSC is not famous in handling consignment well i.e. low. 26% have extremely bad experience as they believe they had extremely bad experience when it comes to handling consignment from PNSC i.e. very low. 15% believe that they don't have good and neither bad experience when it comes to handling of consignment through PNSC. Overall result is explicitly showing that PNSC is not famous in handling consignment well and in order to revive local shipping companies they must need to improve this part and win the confidence of customer

As per the survey, 18.3% said PNSC response rate after any mishap is very low. 58% believe that their response rate is low, 3.5% believe that their response rate is high and rest 17% believe their response rate is average. Which is showing PNSC is notoriously famous in responding back to

their customer after any mishap which is the reason of low confidence of local customers on PNSC, which really need to work in order to mitigate this factor and gain the trust of the customers.

As per the survey result 56.7% of the respondent believed that PNSC is not famous in covering their losses, 16.7% believed that this is near to impossible to cover this loss from PNSC, and 25% has average experience while 1.7% believed that they are the lucky ones. Result is showing negative impact so PNSC really need to be flexible or need to change their strategy as it will be a big differentiation point for them if they adopt this.

Further when we asked respondent regarding demurrage rate which PNSC charge they replied in a way that 38.3% said PNSC charge demurrage low, 15% said they charge high, 10% replied that PNSC charge demurrage rate extremely low compared to other lines while 1.7% said they charge high demurrage rate. So, conclusion is PNSC charge low demurrage rate compared to other shipping lines.

As per the response we got through survey, 68% of the respondent experienced that PNSC is far away from technology and have not adopted new technology compared to others. 25% believed that they are extremely behind in applying and adopting new trend of shipping. Only 7% believed and experienced okay service from PNSC and technology they have. PNSC is far behind in adopting the new technologies to make its operations easier and to give good services to their clients compared to other shipping industries working in Pakistan.

The survey shows that, 66.7% of the respondent believe that PNSC has not so efficient ship tracking system and it could not be accurate as well, 23.3% believed that believe that they have worst ship tracking system and only 10% believed that they had mixed experience.

In this survey respondents have explicitly explained that PNSC has extremely low number of fleets i.e. only 8, and due to same reason, they do not able to get the space on the vessel. 48% believed that the vessels are low and the rest 51% believed that vessels are extremely low. So, for PNSC in order to stay ahead compared to foreign shipping lines they really need to increase their number of vessels.

The other part of the questionnaire was regarding freight charges, and the results are very surprising. As per the result, it is found that 20% of the total respondent found that the freight charges are high of PNSC, 28.3% believed that the freight charges are low, 15 % believed that freight charges are very low compared to other shipping lines in Pakistan and 28.3% believe freight charges are not high and not low compared to other companies of PNSC.

As per the survey, 28.7% of the respondent believed that the transit time accuracy is very low, 51.7% believed that transit time accuracy of PNSC is low, 18.3% believe that it's neither good nor bad. So as per the result its clearly showing that respondent who has insights about the industry, that PNSC is notoriously famous for not providing shipment on time which cause the disarray in the mind of the customer to not to use PNSC as they will not deliver the shipment on time and due to this they might lose millions of dollars and future business as well.

As per the result, 65% respondent said that space availability is low in PNSC fleet. 13.3% believed it's very low, 20% believed that its average.

As per the result, 65% of the respondent believed that PNSC does not provide route optimization, 10% believed that they never experienced that from PNSC as they are not completely flexible on providing route plan. And 25% are not happy and neither satisfied.

63% respondents do not find LCL and FCL facility better from PNSC, 5% has extremely bad experience and 28.3% has average experience and 1.7% has good experience regarding LCL and FCL facility from PNSC.

### **Conclusion and Recommendation**

The above data is explicitly showing that Pakistan National Shipping corporation has lower market share in Pakistan compare to other multinational shipping companies operating in Pakistan. Survey also supports the information mentioned in secondary data which we collected above that PNSC only covers 5% of the company trade happening through Sea and rest 95% of the trade through sea is happening through international shipping lines operating in Pakistan. So, there is definitely a great potential available in Pakistan for shipping companies. And PNSC being only shipping company of Pakistan must need to take some serious corrective measures to revive its lost identity to compete well in this fierce competition. Government must also need to encourage private sector to register their companies in Pakistan and introduce their own vessels to give boost to local shipping industry which not only help Pakistan. Pakistan currently spends around \$5 billion annually in terms of freight charges for all foreign trade, of which the share of PNSC is mere five per cent, the national company remained mostly focused on the import of petroleum products. In order to entice private sector to invest in local shipping industry, government must need to abolish Customs duty for all ships to be registered in the country so that they become national flag carriers. The other incentives government can provide to private sector is the policy that include exemptions of sales tax and income tax on all income of the ship. Above data is showing that overall service which PNSC is providing is not up to the mark while the customers are getting exceptional service from international shipping lines operating in Pakistan. The other companies are taking care of their customer consignment which gives customers peace of mind that their million dollars' worth

of goods are safe and if any mishap will happen so they will get the instance support from international shipping lines to help recover their loss as per agreement. Above data also indicates that customers are also preferring international shipping line over PNSC because they know that their consignment will reach on time to their desired destination as promised with the consignee as in today's world this is the most important factor for any customer around the world because of their agreement with consignee, and this will help them maintain good relationship with their customers and help them to carry on good business relationship.

The recommendations made in this section are based on the market study conducted as "Downfall of Local Shipping Industry of Pakistan, A Case Study of Pakistan National Shipping Corporation." The recommendations are arranged in order of priority, highest first.

- PNSC has to increase its vessels, currently PNSC has 9 vessels and. This will help government owned organization to compete with the international shipping lines who has numerous vessels and due to this the international shipping lines become the first choice of the importers and exporters because of the availability of the ships anytime and the space on the vessels
- PNSC needs to improve its overall service on which local customers don't have any trust and due to this they don't really rely on the services of PNSC to carry their goods to their desire destination. Service includes handling of consignment, on time sailing, response rate after any mishap, coverage of freight loss and damage.
- PNSC must start covering maximum ports around the world. Due to its low coverage customers do not route their consignment towards PNSC as now trading has been occurring all over the world and which international shipping lines who are the competitors of PNSC are providing.

- PNSC must acquire new technology and automate its most of the operations to provide best in class service to its customer and also provide one stop solution without any hassle.
- PNSC need to develop and onboard new technologically advanced vessels which can carry more containers around the world and also have most of the space available on its vessels so they can take as much consignment as possible to increase their revenue, and to also tap the local shipping industry.

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