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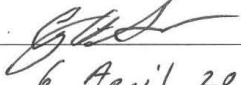
**SIGNIFICANCE OF GWADAR PORT FOR PAKISTAN**

SUBMITTED IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF  
MASTER OF MILITARY STUDIES

LT CDR MANSOOR ALI

AY 15-16

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## EXECUTIVE SUMMARY

**Title:** Significance of Gwadar Port for Pakistan

**Author:** Lt Cdr Mansoor Ali, Pakistan Marines

**Thesis Statement:** Gwadar port bears great economic prospects for Pakistan. However, in existing geostrategic situation, Pakistan's economic interests linked with a fully functional Gwadar port are confronted with enormous challenges as the Chinese involvement in the construction and operations of the port has made it an issue of conflict for regional and extra regional players. Pakistan needs to adopt a careful approach in order to accrue the desired political and economic benefits from Gwadar port in future.

**Discussion:** Maritime trade plays a significant role in strengthening the economy of a country. Pakistan has a long coast line with a number of potential port sites. Also, 95 percent of its trade takes place through sea. However, despite availability of potential port sites and huge volume of maritime trade, Pakistan has largely neglected its maritime sector by developing only two commercial ports. Notwithstanding, recently Pakistan has started the construction of its third port at Gwadar with the financial and technical assistance of China. A commercial port at Gwadar is likely to emerge as a regional hub of economic activities and a year round vital link to China, Afghanistan, and Central Asian State Republics. It can turn the ill economic fate of Pakistan. However, the Chinese involvement in the construction and subsequent operation of Gwadar port has made it an issue of conflict for the regional and extra regional stake holders including the United States. On the one hand the United States and India have suspicions over the likely use of Gwadar port by the Chinese military in the future. On the other hand, China wants to develop Gwadar as a regional hub for trade and a key node to its planned economic corridor. Thus Pakistan is once again finding itself in a tough position of picking between the two great powers to serve their strategic interests in the region. In order to develop Gwadar Port in the expected time frame and subsequently acquire maximum benefit from the project, Pakistan needs to diffuse the speculations about the military use of Gwadar by any foreign military. While doing so, Islamabad should adopt a balanced policy towards enhancing regional and extra regional cooperation, and fostering friendly relations with its neighbors to ensure security and stability in the region rather than confrontation and power struggle among the stake holders.

**Conclusion:** A fully functional Gwadar port has all the potential to turn the ill economic fate of Pakistan. However, the suspicions of regional and extra regional players coupled with turbulent geostrategic political situation surrounding Pakistan, and its unfavourable relations with its neighbours (particularly India, and Afghanistan) are the biggest challenges in Pakistan's way to reap bulk economic gains from Gwadar port. Therefore, in order to accrue economic benefits associated with a fully functional Gwadar port Pakistan needs to adopt a proactive foreign policy approach and foster good relations with its neighbours and oust any suspicion of regional and extra regional players over military use of Gwadar by any external power.

## PART – I BACK GROUND

### Introduction

Maritime trade, being the cheapest and the most resource efficient mode of transportation of large amounts of finished goods and raw materials over long distances, has always played a significant role in developing the economies of all great powers throughout history.<sup>1</sup> From ancient times to the present day, sea ports have served as the termination points of the maritime trade routes or the great ocean highways used for a majority of commerce and trade around the globe.

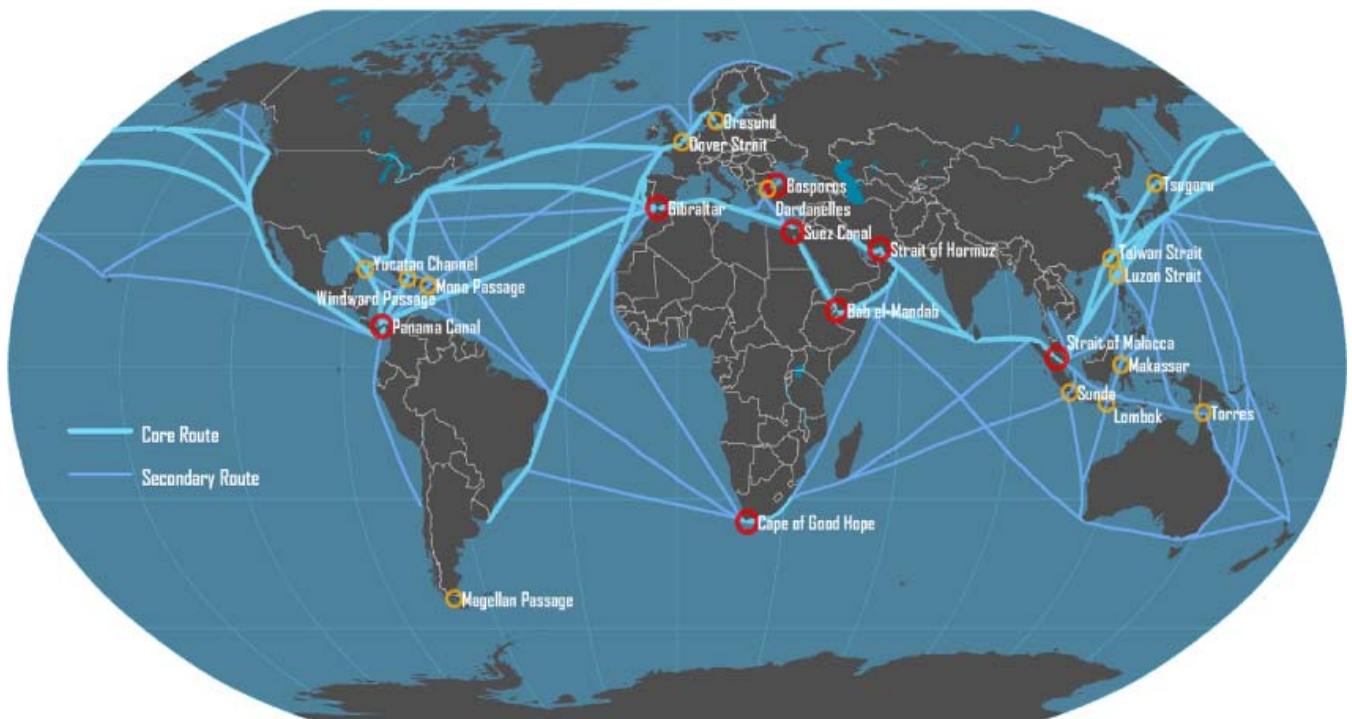


Fig1: World Maritime Trade Routes<sup>2</sup>

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<sup>1</sup> J – P Rogrigue, *The Geography of Transport System*, 2013 available at <https://people.hofstra.edu/geotrans/eng/ch3en/conc3en/ch3c1en.html>.

<sup>2</sup> Ibid

In today's world, countries like China, Singapore, United Arab Emirates, and Oman are generating huge revenues from their port industry. Thus, the importance of sea ports cannot be over emphasized in turning economic and social prospects of a country especially one relying heavily on sea routes for the bulk of its international trade and commerce, such as Pakistan.

Pakistan has a sea frontage of 960 kilometres, stretching from the Gulf of Kutch in the east to Gwadar Bay in the west. Though the long coastline of Pakistan has many potential port sites, so far Pakistan has constructed only two full-fledged sea ports at Karachi and Bin Qasim, both located on its eastern coast. The western coast of Pakistan is ideally located to dominate all eastward and westward sea traffic transiting to and from the Gulf and the Arabian Sea. Gwadar, a small fishing town along Pakistan's west coast offers a naturally created site for construction of a deep sea water port.



Fig 2: Location of Gwadar<sup>3</sup>

<sup>3</sup> The New York Times, Feb 1, 2013: <http://www.nytimes.com/imagepages/2013/02/01/world/asia/01pakistan.html>

The idea of making a deep sea port at Gwadar, capable of handling all sorts of cargos, is thus based on its strategic location and natural availability of deep sea near the coast. Taking advantage of its ideal location for a deep sea commercial port near the mouth of Strait of Hormuz, a fully functional Gwadar Port can alter the economic prospects of Pakistan. It will also provide strategic depth to Pakistan in case of any naval aggression or blockade from the Indian Navy.

Besides bringing all the bright economic and strategic prospects for Pakistan, the Gwadar port project has also become a conflicting issue for regional and extra regional stake holders due to Chinese involvement in the construction and operation of the port. The United States and the regional powers have their suspicions on Pakistan's agreement with China, handing over the operation and construction of Gwadar port to China. The United States views any mere possibility of Chinese naval presence at the strategically important oil choke point of Hurmuz in the future as a threat to its interests in the region. India also views Chinese naval presence in the region as a threat. Unlike the US and Indian apprehensions of military use of Gwadar by Chinese Navy, Iran views Gwadar port as a strong business competitor to her port industry. Therefore, Pakistan should expect a long-term and firm resistance to the Gwadar port project from both regional and extra regional players. Nevertheless, it is very clear from the outset of the project that despite the worrisome objections to the military involvement of China, there are no such plans. Leaders of both Pakistan and China have clearly mentioned that Gwadar Port is being developed as a "pure commercial port."

## **Thesis Statement**

Gwadar port bears great economic prospects for Pakistan. However, in existing geostrategic situation, Pakistan's economic interests linked with a fully functional Gwadar port are confronted with enormous challenges as the Chinese involvement in the construction and operations of the port has made it an issue of conflict for regional and extra regional players. Pakistan needs to adopt a careful approach in order to accrue the desired political and economic benefits from Gwadar port in future.

## **PART - II**

### **STRATEGIC SIGNIFICANCE OF GWADAR PORT**

#### **Importance of Sea Ports**

Most of the world's trade, in terms of volume and weight, is conducted through maritime shipping. According to the United Nations report on Review of Maritime Transport 2013, 80 percent of the global merchandise trade is conducted through sea.<sup>4</sup> Accordingly, world maritime trade grew by 3.4 percent in 2013, taking the total volume of goods traded worldwide to 9.2 billion tons.<sup>5</sup> Due to larger carrying capacity and cheaper freight charges, Merchant ships continued to remain the ideal platforms for transportation of goods as compared to other means of transportation such as road, rail, and air. The world's merchant ships fleet strength has more than doubled since 2001, reaching 1.63 billion deadweight tons in January 2013.<sup>6</sup> Thus ports, which are the gateways to the seas, provided the most cost effective means of conducting trade.

Ports are also a source of revenue generation for the countries facilitating transit and transshipment. As stated in the United Nations report in the Review of Maritime Transport 2013, development of ports brings economic and social uplift in the area by creating employment. The report estimated that in the year 2011, some 262,700 jobs and

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<sup>4</sup> United Nations, "Review of Maritime Transport, *United Nations Conference on Trade and Development*," 2013, available at [http://unctad.org/en/publicationslibrary/rmt2013\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2013_en.pdf) (Accessed 24 Dec Jan 2015)

<sup>5</sup> United Nations, "Review of Maritime Transport, *United Nations Conference on Trade and Development*," 2015, available at [http://unctad.org/en/publicationslibrary/rmt2015\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2015_en.pdf) (Accessed 24 Dec 2015)

<sup>6</sup> United Nations, "Review of Maritime Transport, *United Nations Conference on Trade and Development*," 2013, available at [http://unctad.org/en/publicationslibrary/rmt2013\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2013_en.pdf) (Accessed 24 Dec 2015)

a revenue of \$21.5 billion were generated in the United Kingdom through provision of maritime services.<sup>7</sup>

Similarly, the ports of Dubai, Salalah (Oman), Singapore, and Shanghai are some of the examples of leading revenue generating ports in the world. Jebel Ali Free Zone (Dubai) generated record revenues of Dh1.53 billion (USD 416 million) in 2013.<sup>8</sup> Similarly, Port of Salalah handled more than 10.3 million tons of general cargo during 2014. This marked a volume increase of 22% over the same period in 2013 with a net profit of USD 17.4 million.<sup>9</sup> Singapore Port Authority reported to have handled 64 million Twenty-foot Equivalent Units (TEUs) in 2015, reaching a total Group revenue of S\$4.64 billion with net profit of S\$1.86 billion.<sup>10</sup> According to Shanghai Port annual report, Port handled cargo of 48.36 million metric tons in January 2013. The Group's net profits rose to US \$ 773 million, while revenues climbed to US \$ 4.68 billion.<sup>11</sup>

Besides generating revenue, a port can also help a country accrue significant political benefits by rendering its sea port facilities to neighbouring countries, particularly the land locked states. The economic interdependence and common economic interest of regional states can thus bring peace in the region.

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<sup>7</sup> Ibid

<sup>8</sup> Adam Bouyamourn, "Revenues at Jebel Ali Free Zone reach a record Dh1.53bn," *The National*, 13 Feb 2014. Available at <http://www.thenational.ae/business/industry-insights/economics/revenues-at-jebel-ali-free-zone-reach-a-record-dh1-53bn#ixzz2trbr5I6W> accessed on 26 Dec 2015.

<sup>9</sup> Port of Salalah, "Results for 2014," Available at [http://www.salalahport.com/pdf/annual/2015/pos\\_Q3\\_eng\\_2015.pdf](http://www.salalahport.com/pdf/annual/2015/pos_Q3_eng_2015.pdf) accessed on 24 Dec 2015.

<sup>10</sup> Singapore Port Authority, "Singapore Port Authority Annual Report," 2015. Available at <https://www.globalpsa.com/wp-content/uploads/AR2013-Financial-Review.pdf> accessed on 24 Dec 2015.

<sup>11</sup> Shanghai Port Authority, "Shanghai International Port Report," Available at [https://www.porttechnology.org/news/shanghai\\_port\\_reports\\_slight\\_growth\\_in\\_profits\\_and\\_throughput](https://www.porttechnology.org/news/shanghai_port_reports_slight_growth_in_profits_and_throughput) accessed on 24 Dec 2015.

### **Why Pakistan needs an additional Port**

One may be surprised to note that the volume of trade taking place across the land frontiers of Pakistan is less than 5%. There is limited seasonal trade through the Karakoram highway with China and hardly any trade with Iran, Afghanistan, and India. On the other hand, the bulk of Pakistan's trade takes place through the sea routes. Therefore, when viewed in the context of its trade routes, symbolically Pakistan can be called an island state. However, despite the fact that 95 % of the trade is taking place through sea routes, Pakistan has never developed its maritime sector to its full potential. The long coastline of Pakistan presents a number of potential port sites, but none of them could be developed as a commercial port except the two existing commercial ports of Karachi and Port Muhammad Bin Qasim. Both the ports have reached their optimal cargo handling capacity and may not be able to support future expanded requirements. Also, both of the co-located ports of Karachi and Bin Qasim are strategically vulnerable to Indian naval blockade or a missile attack similar to one carried out by the Indian Navy in 1971. Gwadar, a small coastal town on the Western stretch of Pakistani coast, because of its ideal location at the tip of the Strait of Hormuz and Gulf in East and about 466 km from Karachi, thus provides economic as well as strategic advantages to Pakistan.

A commercial port at Gwadar is likely to emerge as a regional hub of economic activities and a year round vital link to China, Afghanistan, and Central Asian State Republics. A modern sea port at Gwadar, with adequate communication links and ancillary facilities, will thus become a preferred transit destination for many Asian, African, and Pacific countries wanting to do business with Central Asia and China.

## **Geo-Strategic Importance of Gwadar Port**

The strategic significance of Gwadar port comes out of its geographical location. It will also provide the much needed strategic depth to the Pakistan Navy against a much stronger Indian Navy. Situated between the Persian Gulf and the CARs, Gwadar holds a lucrative position with regard to the existing and future oil and energy transportation route of the world. With the depletion of Middle Eastern oil reserves, the CARs' energy resources are gradually coming to the focus of the world's biggest economies such as the US and China. Gwadar provides an important energy export corridor to link CARs with the rest of the world.

Being situated out of the Gulf region, Gwadar offers another strategic advantage over the Gulf ports in case of war in the Middle East. Disputes like the Iran-Iraq War, the Persian Gulf War of 1991, and the Iraq War of 2003 have indicated that the Gulf can become a closed lake within no time. In any such recurrence, Gwadar Port would become a vital asset as it is outside the potential war zone of the Gulf and can provide land access to Central Asia even if the Gulf remains closed.

Besides providing a vital energy resource export corridor, away from the potential war zone of Gulf, another important aspect is its location near the world's most important oil choke point of straits of Hormuz. It overlooks the important Sea Line of Communications and energy and trade routes running east and west of Hormuz. Chinese involvement in the construction of Gwadar port at such a strategically important site has raised suspicions among the regional and extra regional stake holders about possible use of the port by Chinese Navy in the future.

The US and India view any possibility of Chinese Naval presence in the Indian Ocean as a threat to their vital national interests in the region. China wants to develop the port to secure an alternate energy transportation route in case of any US or Indian threat to Chinese shipping passing through the straits of Malacca. Iran views Gwadar port as a competitor of its Chabahar port as a link to CARs. These conflicting interests of the regional and extra regional players associated with Gwadar have turned this unique and tremendously advantageous opportunity into security imperatives for Pakistan. It is therefore necessary to study the interests of the stake holders and the host country.

It is interesting to note that initially the Government of Pakistan requested US assistance to develop the Gwadar Port in the 1970s.<sup>12</sup> However the United States could not realize the importance of this strategically located site until China agreed to develop a full-fledged commercial port at Gwadar with the plans to link it with Western China through road link. No public evidence exists so far suggesting Chinese intensions of using Gwadar for military purposes. However, the mere possibility of the presence of the Chinese Navy near the world's most important oil choke point is being viewed with concern by the United States.

For India also, the Chinese presence at Gwadar is seen as a check on its blue water agenda in the Indian Ocean. India, being the biggest country in the region has the aspirations to dominate the Indian Ocean. It views the Chinese expansion in the region as an effort to encircle India by constructing ports in the neighbouring countries of

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<sup>12</sup> Geoffrey Kemp, *East Moves West: India China and Asia's growing presence in the Middle East*, (Washington DC: Brookings Institution Press, 2010), 206

India. In an interview with a daily newspaper, the Indian Naval Chief showed his concern over the close interaction of the Chinese Navy with the neighbouring countries of India including Pakistan. According to him, such interactions could have serious implications for vital Indian interests in the Gulf.<sup>13</sup> India is investing heavily in construction of the Iranian port of Chabahar, and linking it to CARs through Afghanistan in order to steal the initiative from China to develop Gwadar as regional hub.

China is a booming economy and needs international market access as well as energy resources to fuel its industry. The bulk of the Chinese oil supplies pass through the straits of Hormuz and then traverse all the way through the Bay of Bengal passing through the Straits of Malacca to reach the eastern ports of China. Gwadar port being situated near the straits of Hormuz can provide China with an alternate energy link, which will be much cheaper and safer than the South China Sea. China is therefore looking to develop Gwadar as a major commercial hub to secure a cheaper and safer energy route. Also, in view of the US India strategic partnership aimed to counter China, significance of Gwadar for China becomes more pronounced as it provides China a better opportunity to counter the US rebalance strategy by encircling India.

China is developing Gwadar as a nodal point of the China Pakistan Economic Corridor (CPEC). The CPEC will enable China to access the untapped energy resources of CARs. China also has a plan to develop its Western region. Linking Western China with Gwadar through CPEC will result in huge savings in oil transit cost of China.

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<sup>13</sup> *Times of India* (Mumbai), May 21, 2003.

The huge economic gains of China associated with Gwadar being developed as a regional hub port also deny the US and Indian apprehensions of Chinese developing Gwadar as a future Chinese Naval base. Although the Chinese Navy has undergone rapid development in the recent years, it is still not strong enough to challenge the US Navy or Indian Navy under the US support. Moreover, in case China converts Gwadar into a naval base, it will require expensive security arrangements such as air / harbour defence to safeguard its vital naval assets from likely aggression from the US Navy or even the Indian Navy. Thus, acting wisely, China is looking forward to open more trade avenues with the CARs and the South Asian countries including India rather than jeopardizing its potential economic opportunities by showing military presence in the Indian Ocean Region.

Pakistan is also well aware of the fact that its economic dependence on maritime trade is extremely important for its survival. Pakistan is located in the vicinity of the most important oil choke point from where 17 million barrels of oil transit daily.<sup>14</sup> Developing a port at such a strategic location can serve strategic as well as economic benefits to Pakistan. On the one hand, Pakistan can accrue enormous economic gains by linking oil and gas rich CARs with the rest of the world through the envisioned energy corridor and offering transit trade and transshipment port facilities to regional and extra regional countries. On the other hand, Gwadar port will also provide strategic depth to the Pakistan Navy against a possible naval blockade by the Indian Navy. Chinese commercial interest associated with Gwadar port will provide safeguard to Pakistan

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<sup>14</sup> Moonis Ahmer, "Indian Ocean: Maritime Security and Confidence Building", In *Indian Ocean Security and Stability in the Post-Cold War Era: Proceedings of the International Seminar on Indian Ocean Held at Islamabad, April 1994*, (Directorate of Naval Educational Services, Naval Headquarters, 1995), 264-265.

Navy against any aggression from the Indian Navy and keep India's efforts of becoming the regional hegemon at bay.

Beside India – Sino equation, the success of Gwadar port in terms of bulk economic gain for Pakistan depends upon its relations with Afghanistan. Pakistan would want to have friendly and peaceful Afghanistan as it provides the only route to CARs. Pakistan should also remain cognizant of the fact that by bringing China directly into the Indian Ocean, it has already raised alarm in Washington with respect to US interest in the Gulf. Pakistan should, therefore, expect long-term and determined resistance from both the United States as well as from India after the landmark contract of operation of Gwadar port which was recently given to China. However, as long as Pakistan meets the U.S. requirements related to its war on terrorism, Pakistan can count on American support. Now it should do everything possible not to alienate either China, whose interest and stakes need to remain high in order to accomplish the port project, or the United States, who is the sole guarantor of peaceful and friendly Afghanistan.

Unlike the US and India, who are worried about the future military use of Gwadar by the Chinese Navy, Iran views Gwadar as a potential business competitor. Iran has two ports in close vicinity of Gwadar: Bandar Abbas port and Chabahar port. The latter is being constructed with Indian assistance. The location of these ports, close to Gwadar, offers almost similar or somewhat better trade prospects with CARs as compared to Gwadar. Therefore, Iran would like to capitalize on the Indian support to

attract CARs towards gaining warm water access through Iran.<sup>15</sup> In such a competitive environment, the port offering better facilities and efficient handling is likely to be the winner.

## **Conclusions of Part II**

Following important conclusions emerge out of preceding discussion:

- a. World's maritime grew by 3.4 percent in 2014 and to handle this ever growing trade through sea, the total number of merchant ships in the world has doubled since 2001.
- b. Pakistan's trade volume through land is only 5% of its total trade, making it virtually an island state.
- c. Despite huge trade traffic across Pakistan's over 900 Km long coastline, it could not develop its maritime sector to the fullest of its potential.
- d. Construction of additional ports along the Pakistani coast could have significantly enhanced its trade volume which remained low due to reliance on two existing ports only.
- e. Gwadar, due to its geo strategic location, can become a preferred transit destination for Asian, African, Gulf countries and especially the landlocked CARs.
- f. Deep sea port at Gwadar is being envisioned by Pakistan and China as an economic corridor for the complete region.
- g. The US is unlikely to welcome presence of China in the region.

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<sup>15</sup> Aryaman Bhatnagar and Divya John, "Special Report Accessing Afghanistan and Central Asia: Importance of Chabahar to India," *Journal of Observer Research Foundation*, no 4, (October 2014): 4-5. Available at <http://www.orfonline.org/wp-content/uploads/2013/11/specialreport.pdf> Accessed on 27 Dec 15.

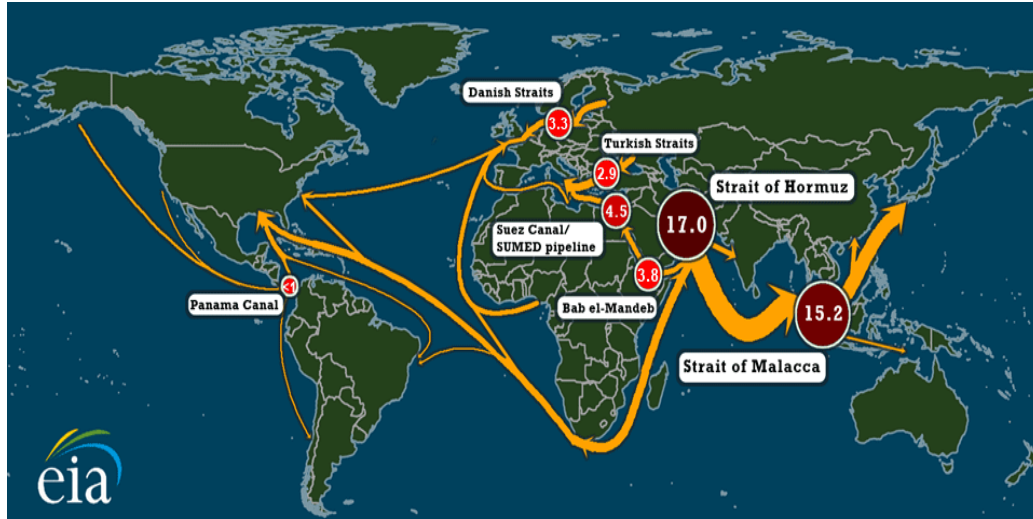
h. Iran's port of Chabahar, presently under development with assistance from India, is going to be a strong competitor for Gwadar Port.

## PART – III

### ECONOMIC PROSPECTS OF GWADAR

#### Economic Significance of Gwadar Port

As discussed earlier, the idea of making a deep sea port at Gwadar, capable of handling all sorts of cargos, is based on a very strong notion and that is its location. Being located on the mouth of Strait of Hormuz, a fully functional Gwadar Port, with all associated facilities can alter the economic prospects of Pakistan. Diminishing oil reserves of Gulf, future energy resources of CARs, centrally poised Asian trade routes, and growing economies of Asia, all provide unique trade opportunities to Gwadar in the near future. The mere location of Gwadar Port, close to the world's busiest oil choke point, i.e. Strait of Hormuz, can sufficiently highlight its economic significance.



All estimates in million barrels per day. Includes crude oil and petroleum products. Based on 2013 data.

Fig 3: Volume of Oil/Petroleum Products Transported Through World Chokepoints in 2013<sup>16</sup>

<sup>16</sup> US Energy Information Administration, “World Oil Transit Chokepoints”, *eia Beta Report* (November 2014), Available at <https://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=WOTC>. Accessed on 01 Jan 2016.

According to a report on “World Oil Transit Chokepoints,” published by US Energy Information Administration, states that only in the year 2013, 17.0 million barrels per day of crude oil was shipped through Strait of Hormuz.<sup>17</sup>

<b><u>Volume of Crude Oil and Petroleum Products Transported Through World Chokepoints, 2009 – 2013</u></b>					
<b>Location</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Straits of Hormuz	15.7	15.9	17.0	16.9	17.0
Straits of Malacca	13.5	14.5	14.6	15.1	15.2
Suez Canal and SUMED Pipeline	3.0	3.1	3.8	4.5	4.6
Bab el-Mandab	2.9	2.7	3.4	3.7	3.8
Danish Straits	3.0	3.2	3.3	3.1	3.3
Turkish Straits	2.8	2.8	3.0	2.9	2.9
Panama Canal	0.8	0.7	0.8	0.8	0.8
<b>World maritime oil trade</b>	<b>53.9</b>	<b>55.5</b>	<b>55.6</b>	<b>56.7</b>	<b>56.5</b>
<b>World total oil supply</b>	<b>84.9</b>	<b>87.5</b>	<b>87.8</b>	<b>89.7</b>	<b>90.1</b>

Table – 1<sup>18</sup>

According to a review published in 2010 by Petar Kurecic,<sup>19</sup> Saudi Arabia ranked first in the World, having 266.8 billion of barrels proven oil reserves, with world's total proven oil reserves of 1332 billion barrels. According to the US Energy Information Administration Report, the details of oil and gas reserves of CARs are shown in the graphs below. Knowing that the Gulf oil reserves are diminishing fast, developed countries are eyeing on the Central Asian Republic’s energy sector to fuel their

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<sup>17</sup> Ibid.

<sup>18</sup> Ibid

<sup>19</sup> Petar Kurecic. "The New Great Game: Rivalry of Geo strategies and Geo economies in Central Asia" (critical review, Hrvatski Geografski Glasnik, 2010), 31.

economies. With proven oil and gas reserves as shown in figures 4 and 5, there is a dire need of efficient energy corridor to be provided to the CARs rich oil and gas fields.

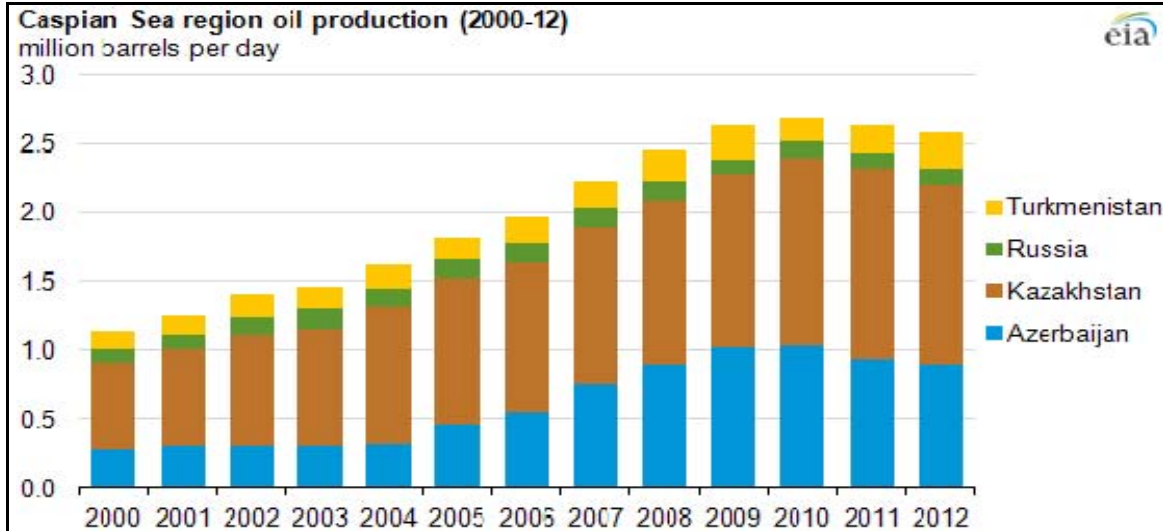


Fig 4: Oil Production of CARs<sup>20</sup>

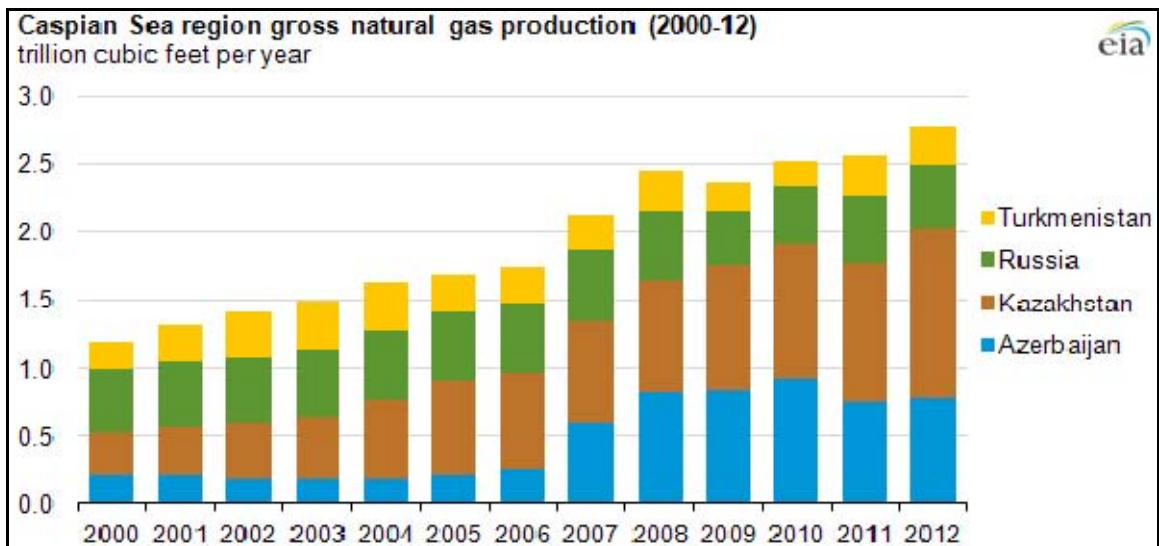


Fig 5: Gross Natural Gas Production of CARs<sup>21</sup>

<sup>20</sup> U.S. Energy Information Administration, "Oil and natural gas production is growing in Caspian Sea region", *Today in Energy*, (Sep 2013). Available at <http://www.eia.gov//todayinenergy/detail.cfm?id=12911#>. Accessed on 15 Jan 2016.

<sup>21</sup> Ibid.

## **Trade Potential of Gwadar Port**

Gwadar port is still under development. After completion of the first phase of construction in 2005, there is a small berthing facility available, but due to inadequate cargo carrying and cargo handling capacity no significant trade volume is being routed through Gwadar port at present. In order to have a realistic assessment of the trade potential of Gwadar port, it is prudent to first analyse global trade trends and then evaluate the regional trade potential.

The United Nations' Review of Maritime Transport - 2015 reports that the world merchant fleet expanded by 3.5% to reach 1.75 billion deadweight tons (dwt) by January 2015<sup>22</sup>. World container port traffic continued to expand from 1544 million tons in 2013 to 1631 million tons in 2014, indicating further growth in global maritime trade in coming years.<sup>23</sup> Most significantly, Asia, being centrally poised on world's trading routes, contributed the most in cargo handling. The same has been depicted in the graph below.

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<sup>22</sup> United Nations, "Review of Maritime Transport" *United Nations Conference on Trade and Development*, 2015. available at [http://unctad.org/en/publicationslibrary/rmt2015\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2015_en.pdf) Accessed 24 Dec 2015.

<sup>23</sup> Statista, "International Seaborne Trade Carried By Container Ships From 1980 To 2014 (In Million Tons Loaded)", The Statistics Portal (2014). Available at <http://www.statista.com/statistics/253987/international-seaborne-trade-carried-by-containers> Accessed 15 Jan 2016.

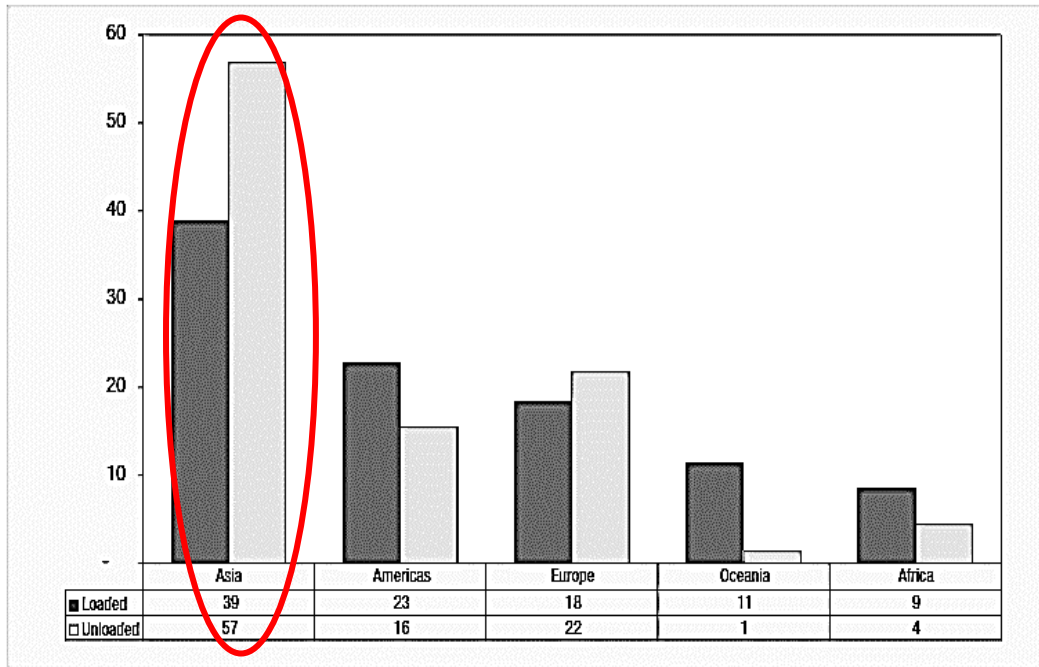


Fig 6: World Seaborne Trade - 2012 (Percentage share in tonnage) (Source: UNCTAD Secretariat)<sup>24</sup>

The increase in trade volume requires additional space to handle the additional cargo. Almost all ports globally try to adopt requisite measures to meet the extended trade volumes, but the other civic infrastructure and amenities constructed around the ports always pose a limitation of certain degree to which a port can be extended. Thus, the practical and feasible solution to this limitation is construction of new ports.

Particularly, in case of Asia, the immense trade volumes produced by the growing economies of China and South Asia coupled with the expanding Middle Eastern markets, emphasize the need for construction new ports in South Asian region.

Although, Iran is constructing the port of Chabahar, with cooperation of India, Gwadar

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<sup>24</sup> United Nations, "Review of Maritime Transport" In *United Nations Conference on Trade and Development, 2013*, available at [http://unctad.org/en/publicationslibrary/rmt2013\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2013_en.pdf). Accessed 24 Dec 2015.

Port still has huge trade potential with China and CARs due to CPEC. The Government of Pakistan also hopes that Gwadar can compete with Dubai and Oman as a transshipment hub by providing loading / unloading facility to the maritime cargo ships running between Asia and Europe. The location of Gwadar provides it better opportunities than Dubai as a transshipment port because the Europe and Asia bound ships can save approximately 700 nautical miles if they load / unload cargo at Gwadar instead of Dubai.<sup>25</sup>

In the same context, it is essential to evaluate the world's growing energy needs. According to statistics published by International Energy Agency the global demand of natural gas will increase by 1.18% by 2030.

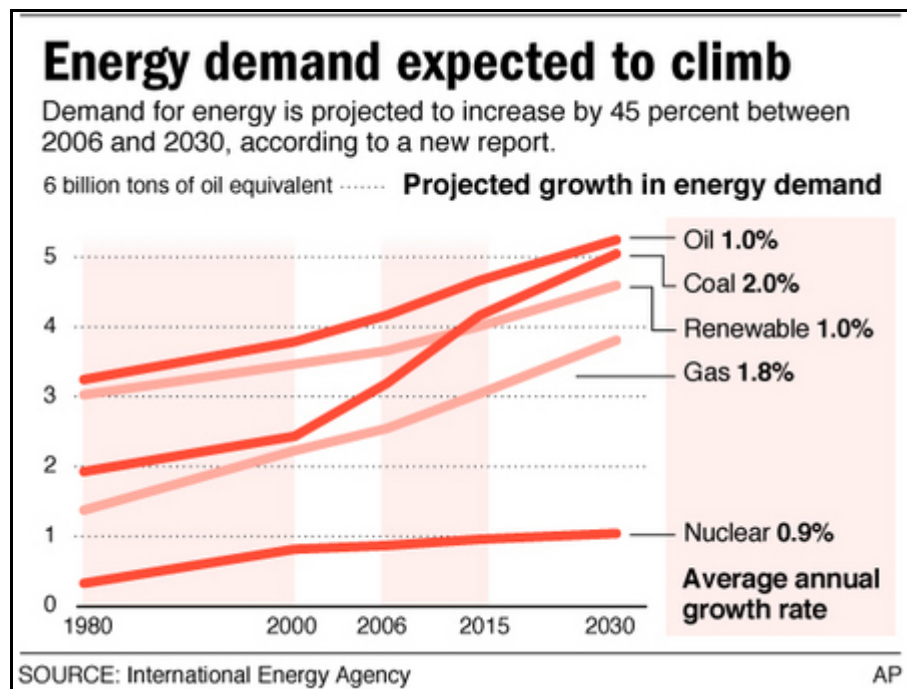


Fig 7: Projected increase in global energy demand by 2030

<sup>25</sup> Geoffery Kemp, *The East Moves West: India, China, and Asia's Growing Presence in the Middle East* (Washington, DC: Brookings Institution Press, 2010), 111.

Similarly, crude oil seaborne shipments have also increased from 2794 million tons in 2011 to 2836 million tons in 2012 and to 2904 million tons in 2013<sup>26</sup>. The increase in transportation of crude oil shows that the demands of oil and gas will continue to rise in the coming years as well. Traditionally the landlocked states of Central Asia have exported oil and gas through pipelines connected through Black Sea to the western markets of European Union and America. The shifting focus of the world's growing economies towards the energy resources of CARs provide them an opportunity to increase trade with the rest of the world other than Europe and America. In order to gain access to other markets of the world, especially the Asian and Far Eastern markets, CARs require access to Indian Ocean. It is in this context that Gwadar, providing a closer access to Afghanistan and CARs to reach global markets through the Trans-Afghan Gas Pipeline project (TAP) and China through CPEC, can emerge as a regional hub for trade and shipment. Former president of Pakistan, Gen (R) Pervez Musharraf, highlighted the economic prospects of Gwadar port during the ground breaking ceremony of the port by saying:

If we see this whole region it is like a funnel. The top of the funnel is this wide area of Central Asia and also China's western region. And this funnel gets narrowed through Afghanistan and Pakistan and the end of this funnel is Gwadar port. So this funnel, futuristically, is the economic funnel of this whole region. All the top of this funnel, the broad top of this funnel, anything going into it or out of it, Pakistan and Gwadar port provides the real input, the inlet and the outlet into it.<sup>27</sup>

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<sup>26</sup> United Nations, "Review of Maritime Transport", *United Nations Conference on Trade and Development*, 2013. Available at [http://unctad.org/en/publicationslibrary/rmt2013\\_en.pdf](http://unctad.org/en/publicationslibrary/rmt2013_en.pdf). Accessed 26 Dec 2015.

<sup>27</sup> Former President of Pakistan, Pervez Musharraf, Address on the ground breaking ceremony of Gwadar Port Project, 22 March, 2002.

It is envisioned that Gwadar port will offer transit cargo facilities to landlocked Afghanistan, CARs and Western China. It will serve as the nodal point for the transportation of natural resources of CARs to the world markets and will also provide transshipment cargo handling facilities besides domestic cargo.

### **Regional Trade Potential of Gwadar Port (CARs, China, and Afghanistan)**

Besides providing world's largest economies access to CARs' energy resources, fully functional Gwadar port will offer enormous trade opportunities with regional countries such as CARs, China, and Afghanistan. Out of all CARs, Uzbekistan and Tajikistan are going to be potential users of Gwadar Port in future as they have shorter road links to Gwadar as compared to the contestant Irani ports of Bandar Abbas and the developing port of Chabahar. By comparing the distance of Gwadar-Tashkent with that of Chabahar and Bandar Abbas with Tashkent, Gwadar offers a distance advantage of 266km and 198Km with Bandar Abbas and Chabahar respectively. Similarly, the distance comparison of Gwadar and the Irani ports with Dushanbe (Tajikistan) shows that Gwadar has a distance advantage over Bandar Abbas and Chabahar by 281km and 213Km respectively. Hence, in terms of distance, Gwadar becomes a preferred option for Tajikistan and Uzbekistan to access the international market for transit trade and shipment.

China is the second biggest oil consumer after the US.<sup>28</sup> Almost 60 percent of the Chinese oil imports are from the Middle East which pass through the Straits of Hormuz and Malacca. It is forecasted that China's oil demand from Middle East would increase

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<sup>28</sup> Zhang Konan and Denise Eby Konan, "The Sleeping Giant Awakes: Projecting Global Implications of China's Energy Consumption", *Review of Development Economics* (November 2010). Available at <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9361.2010.00586.x/full>. Accessed 20 Jan 15.

to 75 percent by the year 2025.<sup>29</sup> If no alternate route is available, this oil has to traverse through the Indian Ocean, Straits of Malacca, and then all the way through South China Sea. It is in this context that China wants to secure an alternate energy route by developing Gwadar as a transit terminal and a nodal point for its oil shipment via the CPEC.

China's plan to develop its western province of Xinjiang under its "One Belt One Route" project will also bring huge trade potential for Gwadar. Xinjiang is located at a distance of 4,500 Km from Chinese eastern ports and 2500 Km from Gwadar. Hence, Gwadar port gives a distance advantage of approximately 14000 Km to China if it uses Gwadar Port instead of eastern Chinese ports for exports originating from western region of China to reach Middle East markets.



Fig 8: Distance Advantage of Gwadar for China

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<sup>29</sup> US Energy Information Administration. "China" 2014. Available <http://www.eia.gov/countries/cab.cfm?fips=ch> Accessed 27 Dec 2015.

Similarly, Afghanistan being a landlocked country is dependent on either Iran or Pakistan for trade through sea. Over the years the total trade flow between Pakistan and Afghanistan has improved manifolds. As compared to Pak-Afghan trade flow of US \$753 million in 2006-07, the trade between the two countries increased to US \$2336.7 million in 2010-11, making Afghanistan one of the leading trading partners of Pakistan.<sup>30</sup> Despite increase in Pak-Afghan trade flow, the security situation in Afghanistan remains the biggest hurdle in exploiting the Pak-Afghan trade potential to its fullest. Afghanistan is full of minerals and untapped natural resources. It is expected that with the conditions in Afghanistan becoming conducive for exploration of its natural resources, it will certainly require economical sea trade routes to earn huge gains out of its productive potential. The Afghan transit trade through Gwadar and the Trans Afghan Gas Pipeline project can thus generate substantial revenue for Pakistan.

### **Local Trade Potential of Gwadar Port**

At present no sufficient industrial infrastructure is available at Gwadar; however being a marine life rich region, Gwadar has the potential to become huge market of fishing industry. According to World Bank survey report published in 2013, fishing sector is providing direct employment to about 700,000 people in Pakistan, out of which 400,000 are from Balochistan (where Gwadar is situated).<sup>31</sup> With 90 percent of fish and

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<sup>30</sup> Shakeel Ahmad Ramay, Muhammad Hamza Abbas, "South Asian Free Trade Agreement (SAFTA) and Implications for Pakistan", (working paper, Sustainable Development Policy Institute, 2013), 10. Available at [http://www.sdpi.org/publications/files/south\\_asian\\_free\\_trade\\_agreement\\_\(safta\)\\_and\\_implications\\_for\\_pakistan\\_\(w%20%20138\).pdf](http://www.sdpi.org/publications/files/south_asian_free_trade_agreement_(safta)_and_implications_for_pakistan_(w%20%20138).pdf). Accessed 27 Dec 2015.

<sup>31</sup> Benmessaoud, Rachid, *Islamic Republic of Pakistan, Balochistan Needs Assessment, Development Issues and Prospects: Part II – Fisheries* (World Bank Report ACS2258, 2013), 6. Available at <http://documents.worldbank.org/curated/en/2013/01/17683510/islamic-republic-pakistan-balochistan-needs-assessment-development-issues-prospects-vol-4-6-fisheries>. Accessed 04 Jan 16.

seafood being handled at Karachi fish harbour, Pakistan earned US \$120 million in export of sea food in the year 2013. It is worth mentioning that a significant share of this earning was originated from Balochistan, but due to non-availability of processing and packaging plants, along with other necessary associated facilities, the catch was handled at Karachi fish harbour.<sup>32</sup> With processing and packaging plants, it is estimated that there would be a marked improvement in sea food export.

### **Conclusions of Part III**

Some of the important conclusions that can be drawn from the previous discussion are:

- a. Asia contributed the most in cargo handling due to centrally poised in world's trade routes.
- b. The existing ports in and around the Asian region are becoming insufficient to handle the continuous increase in maritime trade in this region.
- c. Due to diminishing oil reserves of Gulf States, a prominent corridor is required for rich oil and gas fields of CARs to have access to the eastern markets.
- e. Being in close proximity, Gwadar is one of the possible trade routes for natural resources of CARs. Therefore, it has the opportunity to attract large trade volumes.
- g. More than half of the Chinese oil imports pass through Hurmuz and Malacca. In order to secure an alternate and safe energy route, China will develop Gwadar as transshipment port and nodal point of CPEC.

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<sup>32</sup> Ibid.

- h. Pakistan can capitalize on China's desire to develop its western region of Xing Jiang.
- j. Despite the construction of Iranian port of Chabahar, Gwadar still has a huge trade potential.

## **PART – IV**

### **RECENT DEVELOPMENT AND FUTURE CHALLENGES**

#### **Recent Development**

With the initial port setup already in place, government of Pakistan has handed over the operational control of Gwadar port to China Overseas Port Holdings Limited (COPHL). This agreement has also initiated a series of project agreements and MoUs for the development of supporting infrastructure. One of the most important development project for Gwadar Port is the CPEC which is the 2,000-kilometer road and rail link connecting western Chinese province of Xinjiang to Gwadar. Under CPEC the port will also be linked with the rest of the country through road and rail, but the overall project is not restricted to construction of transportation infrastructure only. In fact around 3 billion people of the region are expected to benefit through Gwadar – Kashgar economic corridor.<sup>33</sup> China is also constructing 19-km Eastbay Expressway connecting the port to the coastal highway, a breakwater, infrastructure for the free trade zone and export promotion zones, technical and vocational institutes and a 300-bed hospital as associated port infrastructure at Gwadar.<sup>34</sup> In addition to the afore mentioned projects, China has also agreed to finance the setting up of a coal-based power plant in the port city.<sup>35</sup>

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<sup>33</sup> DAWN, "Kashgar-Gwadar Project a game changer for whole region: Shairf" *Dawn.com*, Jul 7, 2013, <http://www.dawn.com/news/1023486/kashgar-gwadar-project-a-game-changer-for-whole-region-sharif>. Accessed on 27 Dec 2015.

<sup>34</sup> Hina Mahgul Rind. "China to Provide \$900m for Gwadar Development". *THE NEWS.com*, Feb 21, 2014, [http://www.thenews.com.pk/Todays-News-3-233869-China-to-provide-\\$900m-for-Gwadar-development](http://www.thenews.com.pk/Todays-News-3-233869-China-to-provide-$900m-for-Gwadar-development). Accessed on 27 Dec 2015.

<sup>35</sup> Ibid

## **Future Challenges**

For any new project there are numerous challenges of varying degree and nature. Gwadar Port project is also not an exception. There are numerous challenges for this port which it has to overcome before being able to deliver and contribute towards Pakistan's economy at its full potential. The development of Gwadar port is directly linked with its security prospects which are dependent on far-reaching security and economic cooperation of all the stake holders. Secondly, Islamabad needs to undertake concert efforts and adopt consistent policies for creating a favourable atmosphere for industrialization and linking of Gwadar through road, rail and air with the CARs through Afghanistan, and with China through the Silk Route. Thirdly, though, Gwadar port can attract immense trade potential, yet it has to compete with the developed ports of the region.

Regional peace and security as well as internal stability of Pakistan is very important for the successful accomplishment of Gwadar port project. The project requires development of various supporting industries, business hubs, financial institutions, mega infrastructures in the form of civic facilities and residential projects. These projects, and numerous others cannot be developed by local and foreign investors till the time there is peace and sense of security prevails. The Baluchistan insurgency has gained strength in conjunction with the ongoing insurgency in Iran's Seestan province and Afghanistan's deteriorated law and order situation. The menace of militancy and insurgency has aggravated instability in the region. Baloch nationalists view handing over the port to Chinese as a dishonest manipulation of the resources of

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Balochistan. They have reservations against the Government of Pakistan for depriving people of Balochistan of their own economic asset. Robert D.Kaplan, an American analyst has stated two possible future outcomes of Gwadar port project for Balochistan. He states, “One key to its (Balochistan) fate is the future of Gwadar, a strategic port whose development will either unlock the riches of Central Asia, or plunge Pakistan into a savage, and potentially terminal, civil war.”<sup>36</sup> Hence, the internal stability of Pakistan, particularly that of Balochistan is a pre requisite for the success of the port.

Historically the surrounding areas of Gwadar port i.e., the Middle Eastern and South Asian countries have seen confrontation and power struggle of regional and extra regional powers to safeguard their economic interests and strategic motives by gaining control of the area. In this historical backdrop, Chinese involvement in the construction and operation of Gwadar Port has once again created an atmosphere of strategic mistrust, wherein, the US is apprehensive about the meager possibility of using Gwadar port by Chinese Navy in the future. The likely US response in case of Chinese military presence in Indian Ocean, especially near the Persian Gulf, would be in line with the Carter Doctrine, which states, “Any attempt by any outside force to gain control of the Persian Gulf Region will be regarded as an assault on the vital interests of the United States of America and such assault will be repelled by any means necessary including military force.”<sup>37</sup> The emerging geopolitical environment of merging differences of interests of the regional and neighboring countries associated with the potential military use and economic prospective of Gwadar port has steered Pakistan in a difficult

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<sup>36</sup> Robert D Kaplan, "Pakistan's Fatal Shores," *The Atlantic* (May 2009), available at <http://www.theatlantic.com/magazine/archive/2009/05/pakistans-fatal-shore/307385/>. Accessed on 28 Dec 2015.

<sup>37</sup> Robert H. Johnson, "The Persian Gulf in U.S. Strategy: A Sceptical View," *International Security* 14, no. 1 (1989): 123.

direction. Pakistan is once again finding itself in a tough position of picking between the two great powers to serve their strategic interests in the region. In order to develop Gwadar Port in the expected time frame and subsequently acquire maximum benefit from the project, Islamabad needs to diffuse the speculations about the military use of Gwadar by any military. While doing so, Islamabad should adopt a balanced policy towards enhancing regional and extra regional cooperation, which will ensure security and stability rather than confrontation and power struggle among the stake holders.

One of the prime functions of Gwadar port is it to be able to serve the CARs and landlocked Afghanistan as well as provide shortest route to China for her access to Gulf. In order to perform the said function, Gwadar needs to be connected to these regions through road, rail, and air means. With present connectivity network, Gwadar Port will not be able to perform to its maximum potential. As stated by Mr Dostain Khan Jamaldini, the chairman Gwadar Port Authority, “The first challenge I have experienced is the connectivity problem.”<sup>38</sup> Government of Pakistan has so far spent more than US \$ 16 million on the port, its machinery, and equipment. Other public money that has been spent on its management and maintenance is around US \$ 3 to 4 million; however, the port has been able to earn only US \$ 0.8 to 0.9 million so far. Reason for this, among others, is that the port is not linked with the land through its own reliable and swift road and rail connectivity.<sup>39</sup>

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<sup>38</sup> Dostain Khan Jamaldini (Chairman GPA), "Gwadar Port has a bright future," Interview by Hina Mahgul Rind, *The NEWS*, December 07, 2013. Available at <http://www.thenews.com.pk/Todays-News-3-218588-Gwadar-Port-has-a-bright-future>.

<sup>39</sup> Ibid.



Fig 9: China Pakistan Economic Corridor-Road Plan

Presently work is in progress on M-8 motorway with a total length of 852 Kms connecting Gwadar to Ratodero. Similarly, the railway lines are also being laid to connect Gwadar with Karachi, Jacobabad, Naukundi, and Chaman. This will open up trade opportunities for the countries like Afghanistan and the Central Asian Republics. The connectivity with China depends on how things move faster on the plan for China-Pakistan Economic Corridor.<sup>40</sup>

Development of mega projects like the one of Gwadar Port will only be possible if the government of Pakistan is able to take correct and timely decisions and develop correct, meaningful and sustainable policies. The ever changing political scenario of Pakistan and the regional and global powers' involvement in the socio-political setup of this region has made the task at hand even more challenging.

<sup>40</sup> Ibid.

## **Conclusion**

Gwadar Port occupies a strategic location on the junction of Middle Eastern oil reserves, natural resources of the Central Asia and thriving economies and giant consumer markets of Asia. It oversees the world's most important oil choke point of Hormuz and provides the shortest access to the energy riches of the CARs and southern provinces of China. China is helping Pakistan to develop this port into a regional hub port. A fully functional Gwadar port has all the potential to turn the ill economic fate of Pakistan. However, the US and regional players have suspicions over potential military use of Gwadar by China in the future. These suspicions of regional and extra regional players coupled with turbulent geostrategic political situation surrounding Pakistan, and its unfavourable relation with its neighbours (particularly India, and Afghanistan) are biggest challenges in Pakistan's way to reap bulk economic gains from Gwadar port. Therefore, in order to accrue economic benefits associated with a fully functional Gwadar port Islamabad needs to adopt a proactive foreign policy approach and foster good relations with its neighbours and oust any suspicion of regional and extra regional players over military use of Gwadar by any external power.

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