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**PAKISTAN'S GWADAR PORT – PROSPECTS OF
ECONOMIC REVIVAL**

by

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PAKISTAN'S GWADAR PORT – PROSPECTS OF ECONOMIC REVIVAL

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ABSTRACT

Pakistan is building a port at the southwestern city of Gwadar on the mouth of the oil rich Persian Gulf. It provides an economical route for the flow of Central Asia's natural resources to the world along with easy access to the growing consumer markets of Asia. This thesis conceptualizes the Gwadar facility as a hub port that will contribute significantly to the revival of Pakistan's economy.

China mainly funded and completed the first phase of the Gwadar port in 2005. Islamabad is presently negotiating with private investors for the construction of the second phase. This thesis demonstrates the necessity of a white paper promulgating policies to attract foreign investment.

The United States and key regional players are likely to view Chinese involvement in the Gwadar port project with suspicion. Any potential Chinese long-term military presence in the region will pose complications for Pakistan. The United States may request military basing rights at the Gwadar port to handle some future turbulent situation in the region. Any such eventuality would require Pakistan to strike a difficult balance between a time-tested friend and an ally. Pakistan must enunciate a policy of non-military use of the Gwadar port for foreign powers to help stimulate Pakistan's economic revival.

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I. INTRODUCTION

Pakistan is building a port at its southwestern city of Gwadar, which is located at the mouth of the oil rich Persian Gulf and a possible route for natural resources of Central Asia (see Figure 1). Islamabad is optimistic that the completion of the Gwadar port project would be a major step towards realizing Pakistan's potential as a regional hub of trade and economic activities. The government of Pakistan's vision is for Gwadar to be a link between the East and West that will change the national economy as well as the fate of this region.¹ This vision, however, is not actively reflected in government policies. The port and its ancillary projects seemingly are going out of phase from each other. Where the first phase of the port is complete, the supporting infrastructure of railroad links, industrial capacity, and civic structures at Gwadar is almost non-existent. Much has been left wanting in the realization of this port project. Present economic policies still dominate the continental mindset of Pakistan's leadership in Islamabad. The turbulent geostrategic situation surrounding Pakistan is also taking its toll, as favorable relations have not been established with neighboring countries that have a critical role to play in utilization of this port.



Figure 1. Geography of the Gwadar Port

¹ President of Pakistan's Address at the Ground-Breaking Ceremony of Gwadar Deep-Sea Port, March 22, 2002, Hhttp://www.infopak.gov.pk/CE_Addresses/ce_gwadar.htm (accessed April 22, 2005).

Pakistan is presently experiencing an unprecedented upsurge in its economic growth and independent observers are optimistic that Pakistan's economy is well on a revival path.² How can the Gwadar port trigger Pakistan's economic revival?

The port project is still in its infancy and its success depends entirely on policies pursued by Pakistan. It requires meticulous economic planning and careful execution of foreign policy options. Other strategic compulsions and security concerns may complicate the emergence of Gwadar as a hub port. This thesis identifies areas that require the immediate attention of Islamabad to translate its vision of Gwadar into tangible economic and political gains.

A. NEED FOR AN ADDITIONAL PORT

1. Domestic

Sea-borne trade makes up over 10 percent of the national income for the majority of the world's top economies.³ Over 80 percent of international trade, when measured in weight and volume, is sea-borne, and containerized freight is likely to grow to 70 percent of this trade by volume by 2010.⁴ Pakistan's GDP increased from \$28.7 billion in 1983 to around \$70 billion in 2003, and its dependence on sea trade increased to about 95 percent.⁵ The primary gateway for goods flowing across oceans remains ports. Pakistan presently has only two commercial ports, Karachi and Bin Qasim, in the Indian Ocean, catering largely to the domestic needs. Pakistan's sea-borne trade in the year 2000 was 42 million tons, and by 2015 the trade forecast is 78 million tons annually.⁶ Both the Karachi and Qasim ports are reaching their cargo handling capacity and are likely to be deficient in meeting future demands.

² "Exports surge as Pakistan's economy likely to grow by 6.5%," *Pakistan Times*, [Hhttp://pakistanimes.net/2004/09/12/business2.htm](http://pakistanimes.net/2004/09/12/business2.htm)H, Asian Development Bank, "Pakistan Economy Heads for Higher Growth in 2004 and 2005," 28 April 2004, [Hhttp://www.adb.org/Documents/News/2004/nr2004041.asp](http://www.adb.org/Documents/News/2004/nr2004041.asp)H, International Monetary Fund, *Pakistan and the IMF*, 2005, [Hhttp://www.imf.org/external/country/PAK/index.htm](http://www.imf.org/external/country/PAK/index.htm)H (accessed 23 March 2005).

³ J. R. Hill, *Maritime Strategy for Medium Powers* (Maryland: Naval Institute press, 1986), 17.

⁴ Sam J Tangredi, ed., *Globalization and Maritime Power* (Washington D.C.: National Defense University Press, 2002), Ch. 1, 4.

⁵ Ministry of Finance, Government of Pakistan, *Economic Survey 2003-04*, [Hhttp://www.finance.gov.pk/survey/chapters/09-trade.pdf](http://www.finance.gov.pk/survey/chapters/09-trade.pdf)H (accessed April 4, 2005).

⁶ Environment Division, Government of Pakistan, "Pakistan's Response to Objectives of Agenda 21," [Hhttp://www.pakistan.gov.pk/divisions/environment-division/media/wssd-chp1.pdf](http://www.pakistan.gov.pk/divisions/environment-division/media/wssd-chp1.pdf)H (accessed April 11, 2005).

2. Strategic

Strategically, close proximity of both domestic ports has inherent vulnerabilities, making them and Pakistan more susceptible to a naval blockade. The need for an alternate port became apparent soon after the 1971 war when the Karachi port complex came under Indian missile attack. The Gwadar port, 460 kilometers away from Karachi, will serve as an alternate port to handle Pakistani trade in case of an emergency or blockade of existing ports.⁷

3. Regional

The decision to build a port at Gwadar came twenty-five years after an initial proposal to build a port along the Makran Coast.⁸ Gwadar is strategically located on the Indian Ocean at the crossroads of the Middle East and Central Asia, both regions that are rich in natural resources. The chronically disturbed geopolitical situation of the Middle East, coupled with world's growing requirements of alternate energy resources, has captured the attention of Central Asia's natural resources as a strategic alternative. The geographic location—in proximity to the crucial trade from the Persian Gulf and the largely untapped resources of Central Asia—has bestowed upon Pakistan one of the vital export corridors in the region. The Gwadar port has the potential to act as a hub port not only for the natural resources of Central Asia but also for trade of the entire area, which could translate into a desperately needed economic opportunity for Pakistan. If the project is well executed, the Gwadar port project could contribute significantly to the economic revival of Pakistan.

B. GEOSTRATEGIC IMPERATIVES SURROUNDING THE PORT PROJECT

China is helping Pakistan to build this port as well as a host of associated projects, such as railroad links and industrial complexes. India, Iran, and the United States have growing concerns about this increased Chinese presence. Regionally, India and Pakistan are involved in an intense security dilemma and Iran is struggling to assert its influence as a regional power broker. The natural resources of Central Asia can find their way to the Gwadar port only through Afghanistan, which has been in a state of persistent

⁷ Board of Investment, Government of Pakistan, *Gwadar*, http://www.pakboi.gov.pk/News_Event/Gawadar.html (accessed April 23, 2005).

⁸ U.S. Department of State memorandum s/s-7323703 6722 dated December 20, 1973.

instability for decades. An environment of suspicion has already started fermenting in policy-making circles of all the concerned states due to the increased Chinese presence in the Indian Ocean, and, if unchecked, could lead to more active competition and maneuvering if China does establish long-term military presence in the region. In such an environment, Pakistan's economic interests in Gwadar port are likely to be compromised.

U.S. prosecution of the Global War on Terrorism and its uneven calls for democratization in the Muslim world have led to troubled relations with many of its traditional friends and allies in the Middle East. The United States is compelled to maintain a heavy military presence in the area in order to protect its vital national interests. The requirement for a new base in close proximity of the Persian Gulf may arise if the United States decided to re-organize its force presence in the region, with an eye of decreasing forces in countries with hostile populaces. In this context, one should not rule out the United States' desire to have military basing rights at the Gwadar port, particular given a history of U.S. basing in Pakistan. This would, however, surely trigger uproar in Chinese circles, and Pakistan's time tested entente cordiale and strategic partnership could be put to an extreme test. Additionally, such an eventuality would put Pakistan in a very difficult situation vis-à-vis the Middle Eastern countries.

Pakistan must maneuver through this difficult terrain, with obstacles created by the war on terrorism, the persistence of the Indo-Pakistani rivalry, and Pakistan's delicate political situation. This thesis examines these broader facets affecting the Gwadar port. This strategic context demands careful handling by Pakistan, but they must not prevent Pakistan from achieving the potential political and economic benefits from a future Gwadar hub port.

C. THEORETICAL FRAMEWORK

The thesis focuses on the potential of the Gwadar port to trigger an economic revival for Pakistan. The internal political stability of Pakistan, and particularly in the Balochistan province which hosts the Gwadar port, is of great importance for the success of the port. This subject requires exclusive treatment and, therefore, will not be addressed in this thesis. The thesis introduces the concept of a hub port and its economic effects in order to establish the broader potential of the Gwadar port. A favorable geopolitical

situation is one of the essentials for the success of the port project. The thesis will use theoretical tools to examine prospects for Gwadar's success.

A hub port collects numerous trades at a single concentrated point.⁹ Empirical studies show a positive relationship between trade and growth; and that trade has a quantitatively significant and positive effect on income of a nation.¹⁰ The most obvious explanation for the size of a country's sea-borne trade is the size of its economy. Empirical studies have demonstrated that trade generally starts when the GNP of a country reaches approximately \$17.5 billion and increases by 116,000 tons for each \$1 billion increase in GNP.¹¹ Furthermore, the bigger the economy the greater the likelihood of trade generation; and Pakistan, with a GNP of over \$60 billion and trade volume forecast of 78 million tons, has finally embarked upon a maritime venture of building a port at Gwadar.¹²

The twenty-first century has been known as a century of globalization, and this has been achieved through exponential trade through sea.¹³ Pakistan, even in this era of economic globalization, has so far pursued restricted definition of maritime strategy as "the maritime component of national military strategy" but the time has come when top planners take broader definition encompassing, in addition to the traditional factor of "power," factors such as "trade and access."¹⁴

Evidence, however, suggests that scarcities of natural resources within a country may provoke competition and even wars with other countries over the access to alternate supplies of those resources.¹⁵ Economically important resources not typically considered

⁹ Daniel Y. Coulter, "The Rise of Hub Ports," in Sam J. Tangredi, 133.

¹⁰ Frankel, J. and Romer, D., "Does Trade Causes Growth?" *American Economic Review*, (June 1999), 89: 379-99.

¹¹ Martin Stopford, *Maritime Economics Second Edition* (London: Routledge Press, 1997), 75.

¹² Environment Division, Government of Pakistan, "*Pakistan's Response to Objectives of Agenda 21*," <http://www.pakistan.gov.pk/divisions/environment-division/media/wssd-chp1.pdf> (accessed April 11, 2005).

¹³ Sam J. Tangredi, 4.

¹⁴ James D. Watkins, "The Maritime Strategy," supplement to U.S. Naval Institute *Proceedings*, January 1986, 2-17, Richard Hill, "Do We Need a New Definition of Medium Maritime Power?" in *Maritime Forces in Global Security*, ed. Ann L. Griffiths and Peter T. Haydon (Halifax: Center for Foreign Policy Studies, Dalhousie University, 1995), 38.

¹⁵ Nazli Choucri and Robert North, *Nations in Conflict: National Growth and International Violence* (San Francisco: Freeman, 1975), 283-284.

natural resources can be scarce and capable of generating a clash of interests and even provoking conflicts; specifically, the chokepoints of the world's maritime trade routes. The clash of interests, primarily, is created by the desire of nations to possess a disproportionate share of the sea access upon which the wealth and strength of countries is dependent.¹⁶ Authors seem to agree on the importance of access to natural resources and equally importantly the alternatives. Gwadar port has the capacity to provide access to the vast natural resources of Central Asia as well as a route to the huge consumer market of Asia with one third of world's population, putting the Gwadar port project in the limelight of world affairs.

The area surrounding Gwadar port (South Asia and the Middle East) has historically witnessed power struggle and confrontation starting with the exploitation by colonial powers, and in the recent era, control by super powers to satisfy their strategic motives. A strategic mistrust is once again developing over the potential military use of this port either by China or the United States. And likely mistrust between these powers, on either's desire of military presence in the port area, due to competing strategic, political and economic interests, is one of many impediments in realization of this port. Iran and India also have their own regional ambitions.

"Reassurance" measures are therefore required to defuse suspicions about the perceived long-term political, military and economic objectives of all concerned states, particularly the United States and China.¹⁷ India and Pakistan are engaged in an intense "security dilemma" and to normalize relations Pakistan needs to tailor "influence" strategies and initiate positive engagement.¹⁸ Afghanistan is a landlocked country and heavily depends on Pakistan for its economic revival, in which case, despite estranged relations, Pakistan will have to evolve "positive incentives" to keep Kabul "engaged" in

¹⁶ Alfred Thayer Mahan, *The Influence of Sea Power upon History 1660-1783* (Boston: Little Brown, 1890), 1.

¹⁷ Janice Gross Stein, "Reassurance in International Conflict Management," *Political Science Quarterly*, Vol. 106, No. 3. (Autumn, 1991): 431-451 and Banning Garrett, "The need for Strategic Reassurance in the 21st century," *Arms Control Today*, Vol. 31, Iss. 2 (March 2001): 9-15.

¹⁸ Robert Jervis, "Deterrence, the Spiral Model, and Intentions of the Adversary," *International Politics*, (1976), Charles L. Glaser, "Political Consequences of Military Strategy: Expanding and Refining the Spiral and Deterrence Models," *World Politics*, No. 44. (July 1992)., Susan Peterson, *Crisis Bargaining and the State: The Domestic Politics of International Conflict* (Ann Arbor: University of Michigan Press, 1996), Ch. 2., George L. Alexander, "The Need for Influence Theory and Actor-Specific Behavioral Models of Adversaries," *Comparative Strategy*, Vol, 22, No. 5 (December 2003).

order to ensure safe passage of natural resources of Central Asian States. Relations with Iran also dictate similar strategies.¹⁹

Pakistan is in the middle of a complex strategic and security situation; only appropriate policies can ensure success of the port project, which is not only vital for Pakistan's economic prosperity but also for security. The methodology to reach these policy options is enumerated in subsequent paragraphs.

D. METHODOLOGY

The role of ports in the economy of a nation is discussed to highlight the importance of an additional port for Pakistan. Pakistan's present economic situation, with a particular emphasis on the role of maritime sector, forms the basis for developing this thesis. Gwadar port is compared with transshipment ports of Dubai and Salalah of Oman in terms of infrastructure and facilities in addition to domestic ports of Karachi and Qasim. Gwadar port is also being built to handle the flow of natural resources from Central Asia, in which case Bandar Abbas and Chahbahar ports of Iran are likely competitors; the comparison with these ports is also presented. Ports are first discussed individually, drawing comparisons at the end. In subsequent sections the economic expectations of Gwadar port and its capacity to contribute in the national economy are deliberated in detail. As this requires a carefully articulated package of incentives for potential port users as well as investors, a comparative study of economic packages offered by various ports are presented. Economic assumptions of the port's success are trade and passage for natural resources of Central Asia and Afghanistan, handling of trade from Southern part of China, and act as an alternate transshipment port to other ports of the area; each element of these economic assumptions are evaluated to gather evidence in support of the economic assumptions.

Historically the regions (the Middle East and South Asia) surrounding the Gwadar port have seen disturbances for several decades. Varying, and in some cases competing, strategic interests of various regional and global players and their linkage with the Gwadar Port project is discussed to establish geostrategic imperatives affecting the

¹⁹ Thomas Bernauer and Dieter Ruloff, *The Politics of Positive Incentives in Arms Control* (Columbia, SC: University of South Carolina Press, 1999)., Richard N. Haass and Meghan L. O'Sullivan, *Honey, and Vinegar: Incentives, Sanctions, and Foreign Policy* (Washington, DC: Brookings Institution Press 2000).

Gwadar port. It is focused to identify if these interests are security oriented or tied to the economic compulsions. This interrelation is then used to propose policy guidelines for the officials of the government of Pakistan.

E. CHAPTER-BY-CHAPTER SUMMARY

1. Chapter II: Gwadar: A Hub Port

The purpose of this chapter is to evaluate the potential of the Gwadar port to become a hub port. Today's global trade is primarily conducted through maritime means in which ports play a pivotal role. With mammoth increase in trade volumes and sizes of ships, the emphasis has shifted to the transshipment concept using hub ports as a prime location for loading and unloading of the goods. The dynamics of hub ports to serve the region and produce revenues forms the kingpin of this chapter. This leads to the discussion of the Gwadar port's potential to become a hub port. The port project, along with its all-ancillary projects, is subsequently presented. Then, a comparison of its facilities with other regional transshipment ports of Dubai and Salalah of Oman is made to highlight potentials of Gwadar to become a hub port.

2. Chapter III: Economic Expectations

This chapter evaluates the economic potential of the Gwadar port. The chapter starts with an overview of the present status of Pakistan's economy. An evaluation of a growing global need of natural resources, with particular emphasis on the resources of Central Asia, is presented to find their potential flow through the Gwadar port. Additionally, the need for another transshipment port in this area for trade of the vast Asian consumer market and dictates of growing domestic trade demand is used to establish economic expectations of this port. In the same context, economic analysis of the Gwadar port with its competing ports of Dubai, Salalah, Bandar Abbas and Chahbahar is presented, in addition to domestic ports of Karachi and Bin Qasim. The chapter concludes with a recommended economic incentive package for consideration of the government of Pakistan. The incentive package includes Free Trade Zones, tax relief, simplified bureaucratic procedures, assurances of investment protection, and consistency of business friendly policies.

3. Chapter IV: Geostrategic Imperatives

The area surrounding the Gwadar port (South Asia and the Middle East) has seen geostrategic turbulence more often than not, which could mar the economic realization of this project. Competing political, military and economic interests of regional powers, such as China, India and Iran, in addition to the United States, the European Union and Japan are elaborated to establish geostrategic imperatives surrounding the port project. There are growing fears of “strategic mistrust” among these powers due to potential military use of this port; motives of conflict and incentives of cooperation are, therefore, discussed for each concerned state. It is recommended that Pakistan needs to foster good relations with its neighbors through a proactive foreign policy and pursue a broader understanding with the international community. Additionally, Islamabad needs to dispel any notions of Gwadar port’s military use, particularly by any outside power.

4. Chapter V: Conclusion

This chapter summarizes major findings and conclusions about the economic potentials of the Gwadar port. The chapter concludes with economic and foreign policy recommendations for Islamabad, salient features of these recommendations are:

a. Economic Recommendations

One of the major conclusions of the economic part of the thesis is that the port and its ancillary projects should be handled as a single entity to achieve synergy of efforts. After synthesis of economic incentive packages and management policies of various ports and industrial zones around the world, particularly of Asian Tigers, a set of policy guidelines has been evolved for the consideration of officials handling the Gwadar port affairs. It is recommended to issue a white paper to convey consolidated government economic policies and priorities to handle the entire project.

b. Foreign Policy Recommendations

The prime objective of Pakistan’s foreign policy is to develop beneficial and strong ties with all major powers and maintain cordial relations with its neighbors.²⁰ The government of Pakistan needs to initiate extensive efforts to foster cooperation amongst all players and formulate policies to attract reciprocal cooperation of competing nations, reassure them of benign aspects of this port project and dispel notions of military

²⁰ Government of Pakistan, *Pakistan Foreign Policy*, H<http://www.pakistan.gov.pk/foreignaffairs-division/policies/pak-fpolicy/pak-fpolicy.jsp>H (accessed March 6, 2005).

use of the port by any country. Pakistan needs to reassure India and Afghanistan through demonstration of restraint, and “irrevocable commitment.” Iran could be won over with explicit declarations and through establishing “norms of competition.” As the United States and China are concerned, both are required to show restraint that could be in the shape of some strategic understanding or even through entering into “limited security regimes.”²¹

²¹ Janice Gross Stein, 431-451.

II. GWADAR – A HUB PORT

A. INTRODUCTION

Foundation of Gwadar port was laid in March 2002 and its first phase was completed in a remarkably short duration of three years.²² Three multipurpose berths including all requisite cargo handling have been built in this phase. Phase two is planned to begin in 2005, and would be completed by 2010 and add nine more berths.²³ Islamabad is contemplating this port to become a regional hub, which would not only meet growing domestic requirements but also handle cargo for the entire region. This chapter evaluates the potential of Gwadar port to become a hub port.

Hub port is defined as a single concentrated point for the collection of numerous trades.²⁴ Empirical studies show a positive relationship between trade and growth.²⁵ Gwadar port is strategically located at the cross roads of natural resources of the Middle East and Central Asia, a huge consumer market of Asia with over one third of world population, and at the shortest route to the southern provinces of China. It is being equipped with modern cargo handling facilities to meet the challenges of growing world trade, which over 70 percent is conducted through containers.²⁶ According to a UN estimate, world container traffic that presently stands around 300 million Twenty-Foot Equivalent Units (TEUs) is likely to be doubled by the year 2015.²⁷ Economically booming China and India, increasingly stable Pakistan, and gradually opening consumer markets of Central Asia, coupled with exponential population growth in the region, will generate a substantial portion of world trade in near future. This thesis argues that Gwadar port will be able to tap its due share of trade and act as a hub port for the entire region.

²² Board of Investment, Government of Pakistan, *Gwadar*, http://www.pakboi.gov.pk/News_Event/Gawadar.html (accessed April 23, 2005).

²³ Ibid.

²⁴ Daniel Y. Coulter, "The Rise of Hub Ports," in Sam J. Tangredi, 133.

²⁵ Frankel, J. and Romer, D., 379-99.

²⁶ World Bank, "*Review of Maritime Transport 2004*," http://www.unctad.org/en/docs/rmt2004_en.pdf (accessed April 12, 2005).

²⁷ Ibid.

In this chapter, after having introduced the concept of a hub port, Gwadar port with its ancillary projects is elaborated on. Salient features of regional hub ports of Dubai (UAE) and Salalah (Oman) are then discussed to draw parameters of their competition with Gwadar port. Besides competing for container traffic, Gwadar port is also being built to handle natural resources of Central Asia, for which the ports of Bandar Abbas and Chahbahar of Iran are possible competitors and therefore are also analyzed to draw similar parameters. In addition to external ports, Gwadar port is required to compete with domestic ports of Karachi and Qasim, which are discussed in the same context. Expected competition amongst these ports is deliberated to establish the potential of Gwadar port to become a regional hub.

B. CONCEPT OF A HUB PORT

1. The Theory of Hub Port

The concept of a hub port is based on the “Hub and Spoke system,” which is a physical distribution system based on a “hub” moving cargo to and between several “spokes”²⁸ (spokes are either smaller ports or land cargo distribution areas). As defined earlier, a hub port collects numerous trades at a single concentrated point and distributes them efficiently.

2. Dynamics of a Hub Port

The most important attribute carriers look for is the strategic location of the hub relative to primary origins and final destinations of container traffic. Beyond location, other attributes include the ability to safely accept large ships, extent of terminal facilities, efficiency of container handling operations, availability of frequent feeder services with an appropriate geographical coverage, and attractive cargo-handling charges. A transshipment hub should have terminal facilities that enable quick ship turnarounds. This includes adequate numbers of cranes, sufficient container handling/storage areas and a first-rate computer system to run the entire terminal.

The capacity of a port may be measured by its capacity to: (a) load and unload ships which visit the harbor, (b) transfer cargo in and out of the port area on the land side and (c) store cargo within the port area. It is estimated that the poor infrastructure

²⁸ Department of Defense, “Dictionary of Military and Associated Terms,” Joint Publication 1-02, [H](http://www.projectodyssey.com/training/glossary/glossary-h.html) (<http://www.projectodyssey.com/training/glossary/glossary-h.html>) (accessed March 29, 2005)

accounts for more than 40 percent of predicated transport costs; a deterioration of infrastructure from the median to the 75th percentile raises transport costs by 12 percentage points and reduces trade volumes by 28 percent.²⁹ Analysis shows that shipping costs reduce the rate of growth of both manufactured exports and GDP per capita.³⁰ The quality of onshore infrastructure is an important determinant of transport costs. The obvious and most studied determinant of transport cost is geography, particularly distance. A 100 percent increase in distance raises maritime transport costs by around 20 percent. Whereas, improving port efficiency from the 25th to 75th percentiles reduces shipping costs by more than 12 percent.³¹ The evidence indicates that port efficiency remains the pillar of maritime trade, and hub ports are designed to operate at optimal efficiency thus becoming a value added organ in the economy of a state.

3. Benefits of a Hub Status

The most obvious benefit is the income generated from operations of a transshipment hub because of the double handling of containers. More importantly, transshipment hubs provide local importers and exporters direct access to line haul service, reducing transportation time (and possibly freight rates) to and from overseas markets. Reduced transport time directly impacts the competitiveness of exporters and the cost of imports, in turn creating jobs and income throughout the economy. Many developing countries have created free trade zones in combination with the hub port as engines for economic growth. Jebel Ali of UAE illustrates how a hub port in conjunction with an associated free trade zone can create significant economic activity. The port, which began operating in 1979, now has 67 berths and is serviced by 100 shipping lines. About 1,450 companies from 85 countries have been attracted to start up operations in the free trade zone.³²

²⁹ Nuno Limao and Anthony J. Venables, "Infrastructure, Geographical disadvantage, transport costs and trade," *World Bank Economic Review*, Vol. 15, Iss. 3 (2001): 451.

³⁰ Radelet S. and Sachs J., "Shipping Costs, Manufactured Exports and Economic Growth," Harvard Institute of International Development, 1998.

³¹ Ximena Clark, David Dollar, and Alejandro Miscco, "Maritime Transport Costs and Port Efficiency," a Study sponsored by World Bank and Inter-American Development Bank (February 2001).

³² Dubai Port Authority, *Shipping Lines*, http://www.dpa.co.ae/links/shipping_i.htm (accessed April 23, 2005).

C. GWADAR PORT

With a population of 125,000, the Gwadar town on Makran Coast is now set on its way to become a hub of shipping, commercial and industrial activities. The construction work at the port started on March 22, 2002. The work on the first phase of this mega project, constructed by Chinese Harbor Engineering Company, is already complete. For this phase, out of a total cost of 248 million U.S. dollars, China has provided 198 million U.S. dollars while the Pakistan provided 50 million U.S. dollars.³³

1. Scope of Work

The development of Gwadar Port is being undertaken in two phases (Figure 2).

a. Phase-I³⁴

This phase includes construction of three berths, with a depth of 12.5 meters, and approach channels. On commissioning, these three berths will be used for the loading and unloading of general cargo that may come from as far as West China, Europe and the American continents. In the first phase, the 602 meter long quay or jetty will handle up to 50,000 Deadweight Tonnage (DWT) container carriers. The designed annual throughput of three multi-purpose berths is 100,000 TEUs of containers, 270,000 tons of general cargo and 450,000 tons of bulk cargo.

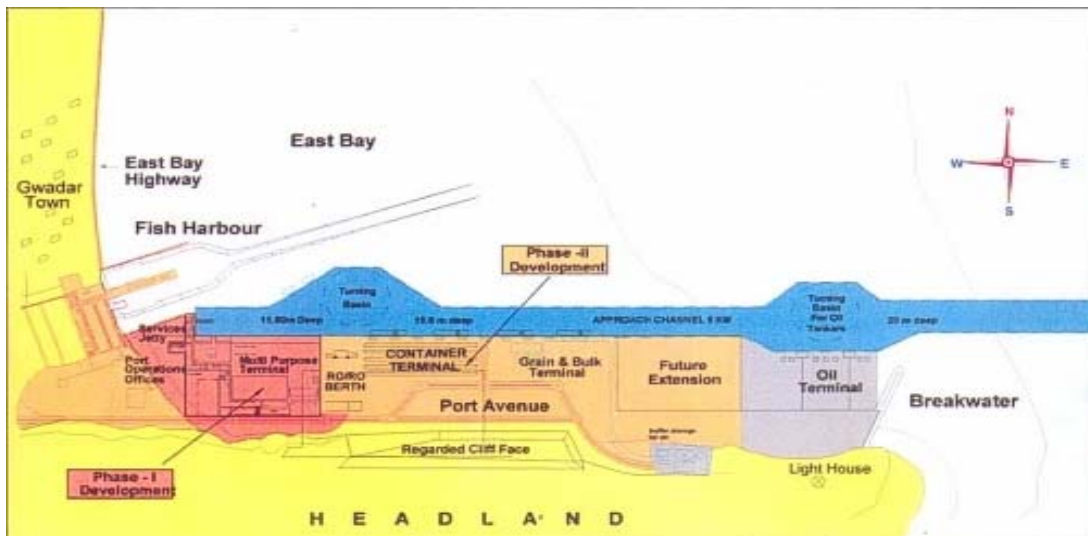


Figure 2. Phases I & II of Gwadar Port³⁵

³³ Board of Investment, Government of Pakistan, *Gwadar*, http://www.pakboi.gov.pk/News_Event/Gawadar.html (accessed April 23, 2005).

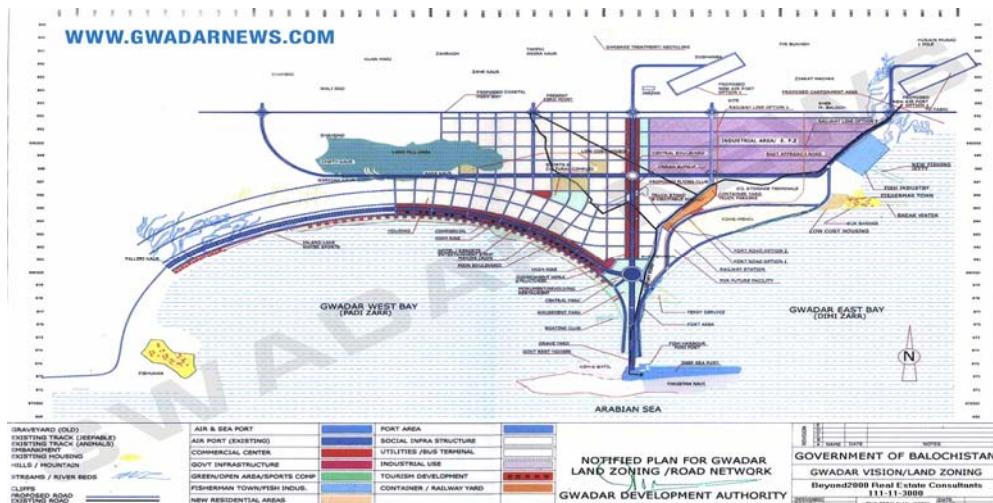
³⁴ Ibid.

b. Phase-II³⁶

The government plans to undertake phase-II of the project as soon as phase-I is operational. Phase-II will be developed through the private sector on a Built Operate Transfer (BOT) and Built Operate Own (BOO) basis. Its extension work includes nine berths, including two container terminals, two dry bulk terminals, two oil terminals, one Roll On-Roll Off terminal, one bulk cargo terminal, one general cargo terminal and channel dredging 20.0 m depth with allied port facilities. The government has started holding negotiations with local and foreign companies to develop this phase at a cost of \$524 million. Gwadar port, after completion of phase-II, will have capacity to handle vessels up to 100,000 DWT for cargo and vessels up to 200,000 DWT for oil.

2. Port Associated Infrastructure

While the construction work of port building is going on, a whole set of supporting infrastructure facilities are being laid down (Figure 3).³⁷ The government has already established a Gwadar Development Authority that operates closely with the Gwadar Port Authority and other government agencies to synergize the completion of this mega project.



³⁵ Board of Investment, Government of Pakistan, “Gwadar,” http://www.pakboi.gov.pk/news_event/gawadar.html (accessed August 22, 2004).

³⁶ Ibid.

³⁷ “Gwadar Master Plan,” <http://www.gwadarnews.com/gwadarphotos/gwadarmasterplan.jpg> (accessed April 4, 2005).

a. Transportation Links

The Makran Coastal Highway linking Gwadar with Karachi on a 675-mile stretch is going to be lifeline of the Gwadar project. Completion of this highway will open up the area for business opportunities to domestic as well as international investors. It will also link Karachi with Iran and, thus, open a new and shorter trade route between the two countries (Figure 4).



Figure 4. Road Network from Gwadar

The Asian Development Bank has already provided U.S. \$500 million to build road projects, linking Pakistan's Balochistan and Frontier provinces with Afghanistan and Central Asia. Road projects are, however, hitting snags due to persistent instability in Afghanistan and disturbed internal dynamics of Pakistan. There are also plans to lay a comprehensive rail link, along with a contemplated road network. This project is undergoing the planning phase.

b. Trans-Afghan Gas Pipeline³⁸

The long dormant project of a 1,500 kilometers long Trans-Afghan Gas Pipeline (TAP) from Turkmenistan to Gwadar and other parts of Pakistan that hopes to pump Turkmen natural gas to global markets is also poised to step off the drawing board after completion of the port project (Figure 5).

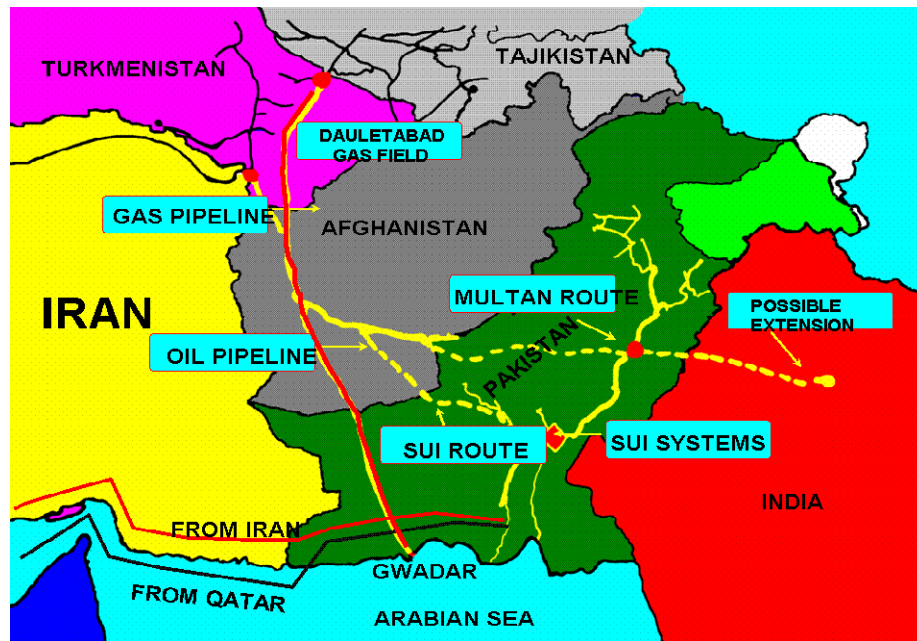


Figure 5. Proposed Gas & Oil Pipeline

c. Upgradation of the Gwadar Airport

Gwadar presently has a small airport that is basically meant for Fokker aircraft. Its expansion is already in full swing to entertain all major airlines. Oman has provided a grant of \$7 million for this upgradation, and additionally, Rs. 563.35 million is being provided by the government and the Civil Aviation Authority for this purpose.

d. Civic Amenities

Gwadar city is being contemplated as a replica of Dubai city. The Gwadar master plan caters for all amenities required for a modern city and developmental work is already underway to ensure that necessary facilities are made available to establish the business and requisite housing needs.

³⁸ Narbaev, "The Trans-Afghan Gas Pipeline," *Central Asia's Affairs*, No. 1 (2004).

D. THE COMPETING PORTS

1. Dubai Ports³⁹

Dubai Ports Authority is presently handling two major ports, Rashid and Jebel Ali. The Rashid port has established itself as a world-class transshipment hub serving as a load center for markets in the Gulf. Dubai now handles about 2.8 million TEU annually, about a quarter of which is transshipment traffic within the Gulf. In March 2002, Dubai Port Authority started construction of another port at Jebel Ali, which raised port's capacity to 5.7 million TEU. Jebel Ali port is the largest man-made port. The port's transshipment flows were estimated at a total of 4 million TEUs in 2002.⁴⁰

2. Salalah Port of Oman⁴¹

This is relatively a new transshipment hub on the Arabian Sea, which established itself as a container terminal in November 1998. Its major advantage is proximity to the Europe/Asia trunk line route. It requires little diversion by line haul ships, allowing a quick pit stop to pick up and drop off containers for the Arabian Peninsula, Indian and Pakistani markets. Already, the port has drawn transshipment traffic that had previously been captive to Dubai and Colombo – and has also drawn some Red Sea transshipment traffic from Jeddah. Port's current throughput is estimated at 1.2 million TEUs.⁴² The port can accommodate vessels up to 16m draft. The turbulent political situation of the Middle East is threatening to undermine its plan to snare more regional transshipment business. Its plan to set up a 6,000 acre free trade zone hit a major snag in 2002, when the major investor, Hillwood Strategic Services, an American firm, withdrew from the venture on the eve of signing an agreement with the government, probably due to geopolitical reasons.⁴³

3. Bandar Abbas and Chahbahar Ports of Iran⁴⁴

The Bandar Abbas port possesses 24 berths including 2 oil berths. The approach channel of Bandar Abbas (Shahid Rajaei) port is 6.4 kilometers long and 13 meters deep.

³⁹ Dubai Ports Authority, H<http://www.dpa.co.ae/>H (accessed April 23 2005).

⁴⁰ Andrew Maiden, "Oman Benefits from calm waters," *Middle East*, Iss. 332, (March 2003): 42.

⁴¹ Salalah Port, H<http://www.salalahport.com>H (accessed April 23, 2005).

⁴² Andrew Maiden, 42.

⁴³ Andrew Maiden, 42.

⁴⁴ Ports and Shipping Organization, I. R. Iran, H<http://www.ir-pso.com/>H (accessed April 23, 2005).

Only four berths are capable to handle vessels up to 100,000 DWT. Iran plans to upgrade facilities in Bandar Abbas to 2.6 million TEU capacity. The port is already connected by weekly container block trains to Tashkent (Uzbekistan) in Central Asia. The expansion of this port is part of the development of the Shahid Rajaee Special Economic Zone for which BOT industrial schemes are contemplated. The Chahbahar port has two main jetties, which can host only five vessels of up to 25,000 gross tonnage and draft of 11 meters.

4. Domestic Ports - Karachi and Qasim⁴⁵

Karachi, being the main port of Pakistan, handles over 14 million tons of liquid and 12 million tons of dry cargo. It has a 12 kilometer long channel and is dredged up to 13 meters. Port Qasim is merely 56 kilometers east of Karachi and may be considered an extension of Karachi port complex. It has a 45 kilometer long channel and is dredged up to 12 meters. Karachi port has over 30 berths including three dedicated oil piers, whereas Qasim has only seven multipurpose berths. Karachi had been known as the gateway to Asia for a very long time, however, it could not translate its strategic location into a regional hub due to lack of domestic trade and the disturbed geopolitical situation of the area surrounding Pakistan. In 2004 Port Qasim handled about 16 million tons of cargo (0.42 million TEUs).

E. COMPARISON OF PORTS

Dubai, Jebel Ali and Salalah ports are well-established hub ports. Dubai's trade accounts for 16.5 percent of a \$20 billion economy of the UAE and these ports contribute significantly in the income.⁴⁶ After just over four years of its establishment, Salalah port earned above \$58 million through the transshipment business.⁴⁷ The present cargo handling capacities of Qasim and Karachi ports are 17 million and 25 million tons per annum respectively and are reaching their capacity.⁴⁸ As far as Iran is concerned, both

⁴⁵ Karachi Port Trust, [Hhttp://www.kpt.gov.pk/H](http://www.kpt.gov.pk/H) , Port Qasim Authority, [Hhttp://www.portqasim.org.pk/H](http://www.portqasim.org.pk/H) (accessed April 23, 2005).

⁴⁶ Matthew Swibel, "Trading with the Enemy," *Forbes*, Vol. 173, Iss. 07, (April 2004): 086.

⁴⁷ Salalah Port Annual Report 2003, [Hhttp://www.salalahport.com/frame-downloads.htm](http://www.salalahport.com/frame-downloads.htm)H (accessed April 4, 2005).

⁴⁸ Government of Pakistan, "Ports in Pakistan," [Hhttp://www.pakboi.gov.pk/BFacts/ports.html](http://www.pakboi.gov.pk/BFacts/ports.html)H (accessed March 30, 2005).

ports do not have enough capacity to handle flow natural resources of Central Asia. Moreover, international isolation of Iran hampers port operation, as it is not open to international users.

The presence of geopolitical turbulence in the Middle East and bottlenecks of capacity in case of domestic ports will provide opportunity for Gwadar port to attract a sizable share of the market and hence establish itself as a hub. A statistical comparison of ports mentioned in preceding paragraphs is displayed in Table 1.⁴⁹ The main conclusion drawn from the table is that after completion of both phases Gwadar port will have requisite infrastructure to attract its share of business. It, however, needs to be appreciated that emergence of a new port would only mean a tighter competition to share the market. Only an appropriate set of policies, priorities and incentives would decide the future of the transshipment business in this area.

Table 1. Statistical Comparison of Ports

Feature	Dubai Ports Authority		Salalah	Bandar Abbas	Chah-bahar	Karachi	Qasim	Gwadar(after Phase-II)
	Rashid	Jebel Ali						
No. of Berths	35	71	33	24	4	30	10	12
Channel Length (Km)	0	15	0	6.4	1	12	45	4.5
Channel Depth (m)	3	17	16	13	0	3	12	20
Traffic Handled (in Million TEUs)	5.1		2	1	-	.8	0.42	??
Vessels Called	13232		1184	--	-	393	806	??

Source: Official websites of all ports.

F. PARAMETERS OF COMPETITION

There are three broad parameters on which ports compete with each other. These include: (1) inter-port for same trade, (2) intra-port for same markets, and (3) Intra-Terminal for same services.⁵⁰ Selection of a port is a shipper's decision which, in addition to geographical location, looks for a full complement of services, including export packaging, warehousing and distribution, bonded operations and a Free Trade

⁴⁹ Data gathered from official sites of respective ports.

⁵⁰ World Bank, "Port Reform Toolkit," Module 6, <http://www.worldbank.org/html/fpd/transport/ports/toolkit/mod6.pdf> (accessed April 05, 2005).

Zone. Ship turn around timing is also of vital importance in their calculation. According to a World Bank study, port's transportation options (directly related to ship turn around timings) factors 60 percent in relative importance given to the selection of a port, whereas port tariff structure and performance factors weigh 20 percent each.⁵¹ Gwadar port will have to compete with already established ports of Dubai and Salalah in addition to domestic ports of Karachi and Qasim to gain a competitive edge as per the above parameters.

G. EXPECTED COMPETITION AMONG PORTS

1. Hinterland Market Access

In some situations, only one port can logically provide access to hinterland markets. This may result from geographical features, lack of adequate transport infrastructure from all but one port, political issues or other factors. Gwadar port is advantageously located to serve South and West Asia, Central Asia in addition to western provinces of China, as compared to other competitor ports.

2. Ability to Service Transshipment Trade

While competition for hinterland market access can sometimes be limited, competition for transshipment business is intense, even for ports that have already established leading positions as load centers. Gwadar, being outside the bottleneck of the Persian Gulf which is threatened from unconventional attacks in prevailing geopolitical situation, has an advantageous location on the Asia and Europe trade route and proximity to the regional origin and destination centers for and from the Arabian Sea market and Indian Subcontinent.

3. Regional Port Capacity and Demand

An imbalance of port capacity within a region will influence the level of competition between ports. Excess capacity will cause ports to aggressively compete for market share. Sometimes this can lead to destructive pricing. Gwadar port will initially be at a disadvantage as compared to its competitors due to lesser capacity and lack of demand. This could be made up for through the right set of policies and economic incentives to attract shipping companies initially at the cost of profit margin.

⁵¹ World Bank, "Port Reform Toolkit," Module 6, <http://www.worldbank.org/html/fpd/transport/ports/toolkit/mod6.pdf> (accessed April 05, 2005).

4. Ability to Create Competition within the Port

The ability to segment operations in the port creates competition among port service providers will often determine whether competition can exist with the port itself. Karachi and Qasim ports are heavily influenced by bureaucratic impediments as well as labor unions, which affects the competition within the ports. Policy makers will have to take bold steps in the initial stages of Gwadar port's operations to bring the port operations in line with modern management techniques, as is the case of other regional ports.

5. Stakes at Risk

The competition amongst ports is influenced by the stakes at risk in the preserving of market share. This takes on a particular significance in modern container ports, considering that the investment required to establish a new container terminal can easily run in millions of dollars. Whoever assumes the risk for this investment will clearly have a big financial stake in ensuring that the new terminal captures and preserves market share. The second phase of Gwadar port is being contemplated whether it should be handled through private sector, which will take care of this factor.

6. Government Willingness to Cut Subsidizing Operations in Other Domestic Ports

The competition between ports is sometimes influenced by the availability of public funds to offset losses, blurring the role of commercial forces. Governments sometimes subsidize ports on the basis that they are vehicles for economic growth. This factor is influenced more from domestic ports than the other competitors. Presently, port operations of Karachi and Bin Qasim ports are being subsidized in one form or another. It could have serious consequences on the success of the Gwadar port if policies are not changed for those ports.

H. CONCLUSION

The chapter primarily presents a structural comparison of the ports with which the Gwadar port is expected to compete. It is worth noting that Karachi port has two dedicated container terminals with a total of six berths and the Salalah port has only four berths dedicated for container handling. Most of the berths operated by the Dubai Ports Authority are oil and support berths, they however have the latest cargo handling equipment to manage high efficiency at the container terminals, and Dubai is the tenth

largest container terminal in the world. Gwadar port will start its transshipment operations with four container terminals with an option of converting up to seven general-purpose cargo terminals to container terminals. As far as Gwadar port's competition with Iranian ports for flow of oil and gas is concerned, both of the Iranian ports are severely handicapped in terms of technology and the capacity to handle large ships. The port of Bandar Abbas has two oil terminals, whereas Chahbahar port has only two small berths. Gwadar port, after completion of the second phase, will have three dedicated berths to handle oil and gas. It is evident that the infrastructure being built will be able to meet domestic needs of the trade as well as attract sufficient trade volumes from other countries.

A real opportunity exists for Pakistan to integrate its economy with the world markets through Gwadar port. In this regard, the priority given by Pakistan to develop the Gwadar port is very opportune. Gwadar port has the potential to compete with regional as well as domestic ports and act as a regional hub.

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III. ECONOMIC POTENTIAL OF GWADAR PORT

A. INTRODUCTION

The first phase of the Gwadar port, with three multipurpose berths, is complete and Islamabad has started negotiations with various private sector investors to start its second phase to add another nine berths. With a population of 125,000, Gwadar city is now set on its way to become a hub of shipping, commercial and industrial activities. Presently, Gwadar is no more than a small town surrounded by desert, the same way Dubai looked prior to construction of port Rashid in 1976. Pakistan plans to transform this city in lines with the developments at Dubai. Setting up of industrial and civic infrastructure from virtual non-existence dictates meticulous planning to generate enough trade for economic viability of the Gwadar port. The government of Pakistan, cognizant of the fact, has already launched various plans to develop Gwadar city to meet future requirements. The previous chapter evaluates potentials of the Gwadar port to become a hub port based on its planned infrastructure. But what is the volume of trade this port will be required to handle, which ultimately will translate into economic gains for the economy of Pakistan?

This chapter evaluates the trade expected to flow through the Gwadar port and its economic benefits. The chapter begins with the present economic condition of Pakistan with emphasis on the role of the maritime sector, in order to establish the role that Gwadar port can play in the national economy. As discussed earlier, there are neither any industries at Gwadar nor any trade being routed through it. The volume of expected trade is, therefore, interpolated through economic trade trends of the areas surrounding the Gwadar port and evaluation of its economic potential. The envisaged trade forecast of Gwadar port is based on the potential cargo from Western China, Afghanistan and Central Asia in addition to flow of natural resources from Central Asia. The development of industries, trade and business in adjoining areas are some of the off spins of ports, which require appropriate policies to accrue maximum benefits, and are discussed in subsequent portions of the chapter. The chapter concludes with policy guidelines for Islamabad to operate the Gwadar port efficiently and manage the expected growth professionally to translate potentials of the Gwadar port into concrete economic gains.

B. ROLE OF MARITIME SECTOR IN PAKISTAN'S ECONOMY

1. Pakistan's Economy

Pakistan's economy during past fifty-five years can be described as a classic example of a case where artificial prosperity was maintained by heavy doses of foreign aid (the latest data is presented in Table 2). Easy and cheap availability of goods and services through foreign aid discouraged the development of a large-scale indigenous industry. Pakistan, after decades of dismay, has a lot to cheer on a reckonable economic performance as GDP growth target of 5.1 percent for financial year 2003-04 surpassed to 5.8 percent.⁵² Both IMF and ADB have projected the real GDP of Pakistan to grow even further in 2005.⁵³ Pakistan is on a path of economic revival and Islamabad is hopeful that the development of the Gwadar port will change the fate of the national economy.

Table 2. Pakistan's Aid Dependency⁵⁴

Country	Net Aid \$ millions		Aid Per Capita		Aid as % of GNI		Aid as % of gross capital formation		Aid as % of imports of goods & services	
	1997	2002	1997	2002	1997	2002	1997	2002	1997	2002
Afghanistan	230	1285	10	46	--	--	--	--	--	--
India	1648	1463	2	1	0.4	0.3	1.8	1.3	2.6	1.6
Iran	200	116	3	2	0.2	0.1	0.9	0.3	1.1	0.4
Pakistan	596	2144	5	15	1.0	3.6	5.3	24.7	3.8	14.3

Source: World Bank Economic Indicators

2. Role of Maritime Sector

More than 95 percent of the country's trade is routed through the sea, which in 2003-04 approximately amounted to 36.3 percent of the Gross Domestic Product (GDP).⁵⁵ It is worth exploring that with such a heavy dependence on sea trade, what role the maritime sector plays in economy of Pakistan.

⁵² Asian Development Bank, "Pakistan Economy Heads for Higher Growth in 2004 and 2005," [Hhttp://www.adb.org/Documents/News/2004/nr2004041.asp](http://www.adb.org/Documents/News/2004/nr2004041.asp) (accessed April 5, 2005).

⁵³ International Monetary Fund, "Pakistan and the IMF," [Hhttp://www.imf.org/external/country/PAK/index.htm](http://www.imf.org/external/country/PAK/index.htm) (accessed April 5, 2005).

⁵⁴ World Bank, "World Development Indicators database," [Hhttp://devdata.worldbank.org/external/CPPProfile.asp](http://devdata.worldbank.org/external/CPPProfile.asp) (accessed May 26, 2004).

⁵⁵ Ministry of Finance, Government of Pakistan, *Economic Survey 2003-04*, [Hhttp://www.finance.gov.pk/survey/chapters/09-trade.pdf](http://www.finance.gov.pk/survey/chapters/09-trade.pdf) (accessed April 4, 2005).

Since its inception, Pakistan failed to pay requisite attention on its maritime aspect due to lack of a coherent maritime policy, unplanned ocean management system and inherent technological backwardness. Negligence in the field of maritime affairs is largely attributed to land oriented strategic compulsions.⁵⁶ The major setback to Pakistan's maritime development has always been the lack of appreciation on the part of national leaders. They could only think of Pakistan's grand strategy revolving around land orientation. The national planners' continental thinking dominated by land strategy neglected the maritime sector, though Pakistan's dependence on trade through the sea kept increasing to approximately 95 percent.

Empirical studies show a positive relationship between trade and growth; and that trade has a quantitatively significant and positive effect on the income of a nation.”⁵⁷ The twenty-first century undoubtedly is a century of globalization, made so by the easy access and exponential trade through the sea.⁵⁸ Pakistan, even in this era of economic globalization, has so far pursued a rather restricted definition of maritime strategy as “the maritime component of national military strategy,” but the time has come when top planners take a rather broader definition encompassing, in addition to the traditional factor of “power”, factors such as “trade and access.”⁵⁹ It is argued that the most obvious explanation for the size of a country's sea-borne trade is the size of its economy, and the trade starts when the GNP of a country reaches \$17.5 billion and increases by 116,000 tons for each \$1 billion increase in GNP.⁶⁰ It is further contended that the bigger the economies the more likely they are to generate the trade; and Pakistan, with GNP over \$60 Billion and trade volume forecast of 78 million tons, has embarked upon a maritime venture of building a port at Gwadar.

Pakistan presently has two commercial ports, Karachi and Bin Qasim, in the Indian Ocean, catering largely to the domestic needs. About 2,000 ships, including 200

⁵⁶ Raja Rab Nawaz, “Maritime Strategy in Pakistan,” [Hhttp://library.nps.navy.mil/Archimages/7229.PDF](http://library.nps.navy.mil/Archimages/7229.PDF)H (accessed April 22, 2005).

⁵⁷ Frankel, J. and Romer, D., 379-99.

⁵⁸ Sam J. Tangredi, 4.

⁵⁹ James D. Watkins, 2-17, Richard Hill, “Do We Need a New Definition of Medium Maritime Power?” in ed. Ann L. Griffiths and Peter T. Haydon, 38.

⁶⁰ Martin Stopford, 75.

oil tankers, visit the Karachi coast every year.⁶¹ Pakistan's sea-borne trade in year 2000 was 42 million tons. The future trade forecast is 51 million tons per annum by 2005 and 78 million tons per annum by the year 2015.⁶² The Karachi and Qasim ports are reaching their limit in the handling of cargo and are perceived to be deficient in meeting future demands. Pakistan offered the United States to finance a seaport along the Makran coast in 1973, which was declined. The Department of State indicated that they would not consider financing the port.⁶³ Lacking a funding source, the idea was then not pursued for over 25 years, till Pakistan's erstwhile friend China came forward not only to provide sources but also to construct the port at Gwadar. The importance of the Gwadar port stems from its advantageous geographical position in the Indian Ocean.

C. TRADE EXPECTATIONS OF THE GWADAR PORT

1. Global Trade Trends

The United Nation's review of Maritime Transport 2004 indicated that in 2003 world sea-borne trade increased by 3.7 percent in response to 2.6 percent increase of world trade output.⁶⁴ Growth of sea-borne trade at this rate resulted in an exponential increase in world container traffic by 9.2 percent.⁶⁵ The World Bank has estimated that world trade would continue to grow in coming years, which means that sea-borne trade will increase with corresponding ratios. In terms of trade volumes, this ratio generated over 22.5 million TEUs.⁶⁶ This excess can be imagined by the fact that this excess trade volume is 4 million TEUs more than the trade handled by all ports of South Asia and Middle East countries. Ever increasing volumes of sea-borne trade dictate extraordinary measures by all ports. Whereas almost all world ports are adopting measures to embrace themselves to handle this trade demand, there is always a limitation to the extension of the port capacities, for which new ports are the answer. Particularly, the mammoth trades

⁶¹ Asian Development Bank, "ADB Report: ADB RETA 5974," H<http://www.iczm-sa.org/pakistan/intro.htm>H (accessed April 3, 2005).

⁶² Environment Division, Government of Pakistan, "Pakistan's Response to Objectives of Agenda 21," H<http://www.pakistan.gov.pk/divisions/environment-division/media/wssd-chp1.pdf>H (accessed April 11, 2005).

⁶³ U.S. Department of State memorandum s/s-7323703 6722 dated 20 December 1973.

⁶⁴ World Bank, "Review of Maritime Transport 2004," Hhttp://www.untad.org/en/docs/rmt2004_en.pdfH (accessed April 12, 2005).

⁶⁵ Ibid.

⁶⁶ Ibid.

generated by growing China, economically stabilizing India, reviving economies of South Asia and the diversifying Middle East require additional ports. However, presently there are no other new ports being built in this area and Gwadar port has the opportunity to attract large trade volumes.

In the same context, it is essential to evaluate the world's growing energy needs. It is estimated that the demand of natural gas will continue to grow by 2.75 percent annually, whereas oil demands have remained unabated for many years.⁶⁷ Energy demands, particularly generated by Asian countries, have resulted in skyrocketed prices of oil and gas. The world's excess production capacity of natural resources is reducing rapidly and there is a desperate need for additional resources to be injected to meet the requirements of global energy markets. Natural resources of Central Asia have gained importance in this regard and the Gwadar port is one of the possible routes to provide these resources an access to world energy markets. Therefore, great volumes of trade will flow through the Gwadar port, generating enormous revenues that are desperately needed to revive Pakistan's economy.

2. Expected Trade – Central Asia

Central Asia's plentiful oil and natural gas reserves have made the region an increasingly important area. The flow of natural resources through the Gwadar port is one of its main economic assumptions. The long dormant project of a 1,400 kilometer long Trans-Afghan Gas Pipeline (TAP) from Turkmenistan to Gwadar and other parts of Pakistan that hopes to pump Turkmen natural gas to global markets is poised to step off the drawing board after the completion of the port project. Natural resources of other states could also follow suit when this project is made operational. The volume of the proven energy reserves of the Central Asian region is as listed in Table 3:

⁶⁷ World Bank, "Review of Maritime Transport 2004," http://www.unctad.org/en/docs/rmt2004_en.pdf (accessed April 12, 2005).

Table 3. Proven Reserves, Central Asia

Country	Crude Oil (Million Barrels)	Natural Gas (Trillion Cubic Feet)	Coal (Million Short Tons)
Kazakhstan	5,417	65	37,479
Kyrgyzstan	40	0.2	895
Tajikistan	12	0.2	Minimal
Turkmenistan	546	101	Minimal
Uzbekistan	594	66.2	Minimal
Total	6,609	232.6	38,374

Source: Energy Information Administration.⁶⁸

The total population of the Central Asian State is around 65 million, which is distributed amongst six states, out of which Azerbaijan, Kyrgyzstan and Kazakhstan are located comparatively away from Pakistan.⁶⁹ It is expected that only a small quantity of cargo from these states may find its way to the Gwadar port. The other three states, Uzbekistan, Tajikistan and Turkmenistan, due to close geographical proximity, will be the potential users of the Gwadar port. The present total foreign trade of the area is estimated to be \$20 billion, with \$12 billion of exports.⁷⁰ The total international trade of the region in terms of weight and volume is approximately 80 million tons.⁷¹ All kinds of consumer goods, electronic items and garments are imported by these countries, which ought to flow through a seaport. Whereas exports, which could find their way through the Gwadar port, include cotton, metal ores, machinery, gas and oil.

The road distance from Kushka in Turkmenistan to Gwadar is only twelve hundred kilometers; whereas, the nearest Black Sea port of Odessa in the Ukraine is approximately three thousand and four hundred kilometers away from Central Asian States.⁷² Therefore, Gwadar is the most viable option available with the CARs. A 500-

⁶⁸ U.S. Energy Information Administration, "Country Analysis Briefs - various," [Hhttp://www.eia.doe.gov/emeu/cabs/contents.html](http://www.eia.doe.gov/emeu/cabs/contents.html) (accessed April 12, 2005).

⁶⁹ Asian Development Bank, "Central Asia Regional Economic Cooperation – CAREC," [Hhttp://www.adb.org/CAREC/default.asp](http://www.adb.org/CAREC/default.asp) (accessed April 24, 2005).

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

kilometer long highway connecting Gwadar via Panjgur, Chaghi and Rabat, up to Herat in Eastern Afghanistan is already being planned, which would directly link Gwadar to Central Asia.

It is even reasonable to assume that, once this road link is established, trade as far as from Russia could also find its way through the Gwadar port. This route is expected to offer quicker and cheaper transportation than the primary alternative – the shipment of goods from South Asia through the Suez Canal and the Mediterranean and then into the Atlantic and North Sea to Baltic ports. Russian analysts predict that delivery time using such a route will be reduced by up to 20 days, and the cost per container will decrease by \$400 to \$500.⁷³

3. Expected Trade –China

Another vital country is China, an economic giant of the region. The trade prospects with China are envisaged to evolve along with the construction of the port. Being a coastal region, the eastern part of China is far more developed than the western part. China triggered the western development strategy in the late 1990s and the western region has drawn the attention of eastern region due to its cheaper labour force, rich natural resources and potential huge market. The southern tip of the huge Xinjiang province is 4,500 kilometers from Chinese ports located on the eastern coast, but only about 2,500 kilometers from the Gwadar port.⁷⁴ It is expected that China's use of the Gwadar port for exports originating from the western region will provide her preferred option. Thus, it may be logically visualized that the Gwadar port will be an integral part of China's Foreign Trade route in future. The existing Karakoram highway already connects western China to Pakistan. With further expansion and upgrading of this traffic artery and proposed linkages to Gwadar via planned Ratodero - Khuzdar road, shall make it the shortest and viable route connecting Gwadar to Western China.

4. Expected Trade – Afghanistan

Afghanistan, after being placed on a path of development, is in desperate need of finding new avenues for boosting its economy. The country is full of natural resources, among them are the world's largest deposits of copper and large deposits of high grade

⁷³ Gordon Feller, "Trade Route of the Future," *Journal of Commerce*, (May 26, 2003): 1.

⁷⁴ M. Aftab, "Will Gwadar be a 'paradise' for investors," *Khaleej Times*, April 1, 2002, H<http://www.khaleejtimes.co.ae/ktarchive/010402/finance.htm>H (accessed April 23, 2005).

iron ore. Besides this, the country possesses reserves of oil, gas, coal and precious stones. Once the conditions in Afghanistan become conducive to full exploitation of this productive potential, it will trigger a formidable momentum of trade activity, which would need operationally feasible and economically viable sea trade routes.⁷⁵ Another important fact is the Trans-Afghanistan Pipeline (TAP). This project, carrying 30 billion cubic meters of gas per annum from Turkmenistan's gas fields to Gwadar, will be the first step towards its perceived economic benefits. This 1,500 km pipeline project can yield significant revenues as Pakistan has plans to build a liquid-gas plant at the Gwadar port for export purposes.

5. Expected Trade – Domestic

The development of the Gwadar port will play an incentive role in changing the economic destiny of the country in general, and the Balochistan province in particular. Large volumes of trade are expected after the establishment of industries at Gwadar and the surrounding area. The government has already planned an Export Processing Zone, declaring it as a Tax Free Zone.⁷⁶ With the completion of a coastal highway, a sizable volume of trade from Pakistan's other industrial areas is also likely to flow through the Gwadar port, especially while both existing ports are reaching their capacity to meet the needs of domestic trade. The estimated cargo handling of Gwadar port, based on future prospects, till year 2015 is as shown in Table 4.

⁷⁵ Energy Information Administration, *Afghanistan Country Analysis Brief*, June 2004, <http://www.eia.doe.gov/emeu/cabs/afghan.pdf> (accessed April 23, 2005).

⁷⁶ Reporter, "Incentives for economic zone at Gwadar sought," *The Dawn*, Mar. 19, 2005, <http://www.dawn.com/2005/03/19/abr4.htm> (accessed April 23, 2005).

Table 4. Gwadar's Trade Forecast

Category	Year		
	2005	2010	2015
Dry Cargo (million tones)	3.96	4.74	5.77
Liquid Cargo (million tones)	16.62	17.54	18.77
Container (1000 TEUs)	200	241	295
Transshipment (1000 TEUs)	200	250	300

Source: Board of Investment – Government of Pakistan.⁷⁷

Additionally, Balochistan has abundant mineral resources, which could not be exploited earlier, mainly due to a poor communication infrastructure. The development of roads due to increased economic activity in the province will play a vital role towards the development of an otherwise barren province. A welcome spin off of the Gwadar port is the renewal of Saindak project. This project aims at the production of gold and blister copper, which fetched more than 140 million rupees in foreign exchange during a trial production in 1995.⁷⁸ With this project becoming operational, Pakistan would be producing 45,000 tons of copper along with various associated metals, which besides meeting domestic requirement, will be exported through the Gwadar port and earn a substantial amount of foreign exchange.

Fishery is an avenue that is providing employment to 300,000 fishermen that is in addition to 400,000 attached to its ancillary industries. The Karachi fish harbor handles 90 percent fish and seafood catches and earns \$120 million in export. Contribution of fishery in the country's earnings is displayed in Figure 6.⁷⁹ It is anticipated that with the

⁷⁷ Board of investment, Government of Pakistan, "China – Country Brief," [Hhttp://www.pakboi.gov.pk/Country_Brief/China.pdf](http://www.pakboi.gov.pk/Country_Brief/China.pdf)H (accessed April 9, 2005).

⁷⁸ Ministry of Petroleum & Natural Resources, Government of Pakistan, *Saindak Copper-Gold Project*, [Hhttp://www.mpnr.gov.pk/saindakproject.php](http://www.mpnr.gov.pk/saindakproject.php)H (accessed April 23, 2005).

⁷⁹ Federal Bureau of Statistics, Government of Pakistan, [Hhttp://www.gov.pk.org](http://www.gov.pk.org)H (accessed March 9, 2005).

construction of Gwadar port, there would be a marked improvement in fish and seafood catch along with the enhanced offshore exploitation of EEZ.

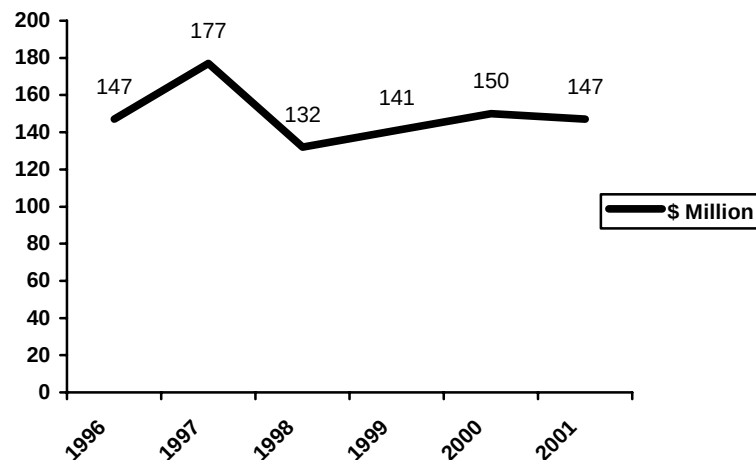


Figure 6. Fishing Exports of Pakistan⁸⁰

Source: Federal Bureau of Statistics (Government of Pakistan)

6. Industrialization of the Area

Development of the port will also bring in its wake industrial development, prosperity and social uplift of immediate and adjoining areas. Gwadar is an unexplored territory to date as far as business is concerned; a lot of business activities are possible. There are numerous businesses that offer sizeable profits for the investors in Gwadar. A few are mentioned below (Table 5):

⁸⁰ Federal Bureau of Statistics, Government of Pakistan, [Hhttp://www.gov.pk.org](http://www.gov.pk.org)H (accessed March 9, 2005).

Table 5. Industrial Potentials at Gwadar

1. High technology and heavy industries.	13. Shrimp farming, Shrimp /Lobsters.
2. Fish Processing & Crabs processing.	14. Training services in Fisheries and Aquaculture.
3. Cold storages, Ice factories.	15. Port Management projects.
4. Seawater Reverse Osmosis Desalination Plants for profitable purpose.	16. Hotels Restaurants & Resorts.
5. Business Development	17. Date Processing.
6. Service Providers	18. Canned food, Gravel Crush plant
7. Oil Palm cultivation.	19. Water sports center and recreation facilities.
8. Marine & Automobile repair workshop.	20. IT Related industries.
9. Renewable Energy; wind, solar-IPP.	21. Warehouses.
10. Clearing & Forwarding agency.	22. Boat building & naval architecture institute.
11. Hospitals & Clinics.	23. Oil Storage tankers.
12. Re-rolling Mills.	24. Ferry Service for Karachi, Ormara-Pasni- Gwadar and up to Oman and Dubai.

D. ECONOMIC EXPECTATIONS OF GWADAR PORT

Running a port used to mean serving the import and export needs of a well defined hinterland, like Pakistan's domestic ports have traditionally been doing. Pakistan's decision to build the Gwadar port was driven by the projected requirements of trade, expanding requirements of transshipment ports, and most importantly, global lust for a strategic alternate to natural resources. The Gwadar port is being build to handle not only domestic trade, but to act as a transshipment port, which besides boosting trade volume generates additional revenue just by handling some one else's trade.

It is worth noting that for a majority of the world's top economies, sea-borne exports alone make up over 10 percent of the national income.⁸¹ Hong Kong's port

⁸¹ J. R. Hill, 36.

contributed over 20 percent⁸² of the country's total 161.5 Billion Dollar⁸³ GDP in 2002, and Dubai's trade was 16.5 percent of a \$20 billion economy.⁸⁴ The port of Salalah, which started just five years back, broke the world record twice for the number of container moves achieved per hour and is now earning over \$58 million through handling of transshipment trade.⁸⁵

In the Soviet era, millions of tons of cargo a year passed from Europe to Iran via the Soviet Union and India. If revitalized, this corridor is likely to generate around 15-20 million tons of freight annually, and annual trade worth \$10 billion, and the Gwadar port is suitably located to attract this trade.⁸⁶ In addition to revenue generated through port operations, toll collection will be another venue for resources. According to one estimate, border-crossing costs vary between 10 and 15 percent of the goods' value in case of road transport, and 2 to 10 percent for rail transports.⁸⁷ In terms of TEU per kilometer the cost to transport is around \$1 per TEU.⁸⁸ The flow of 10-15 million tons of Central Asian trade would generate millions of dollars per year in taxes and services. Large volumes of trade from western provinces of China are also expected to be routed through the Gwadar port, generating similar amounts of revenue.

A World Bank study indicated that even the services sector of ports have the capacity to generate around \$60 billion a year.⁸⁹ The World Bank also estimates that Asian countries need to invest \$600 billion over the coming decade to meet their energy needs. Development of the Gwadar port is one such venture to provide access to energy resources of Central Asia; perhaps this is the reason that China is the major investor in

⁸² Bureau Report, "India must emulate China ports model," *The Hindu Business Line* September 18, 2002.

⁸³ World Bank, "World Development Indicators - April 2004," [Hhttp://devdata.worldbank.org/external/CPPProfile.asp](http://devdata.worldbank.org/external/CPPProfile.asp)H (accessed May 26, 2004)

⁸⁴ Matthew Swibel, "Trading with the Enemy," *Forbes*, Vol. 173, Iss. 7 (April 12, 2004): 086.

⁸⁵ "Salalah Port - Milestones," [Hhttp://www.salalahport.com/frame-intro.htm](http://www.salalahport.com/frame-intro.htm)H (accessed April 4, 2005).

⁸⁶ Gordon Feller, 1.

⁸⁷ World Bank, "Review of Maritime Transport 2004," [Hhttp://www.unctad.org/en/docs/rmt2004_en.pdf](http://www.unctad.org/en/docs/rmt2004_en.pdf)H (accessed April 12, 2005).

⁸⁸ Ibid.

⁸⁹ World Bank, "World Bank Port Reform Tool Kit," [Hhttp://www.worldbank.org/html/fpd/transport/ports/toolkit.htm](http://www.worldbank.org/html/fpd/transport/ports/toolkit.htm)H (accessed August 22, 2004).

the first phase of the port. The second phase of the port is planned to be built through private investors and is likely to attract major investments.⁹⁰

The Gwadar port will bring an industrial revolution in the area and generate thousands of jobs. A large support and services setup will also evolve along the entire path of trade flow, generating income opportunities for a large population. In countries like Pakistan, a single job is the means of living of entire families of average 4-5 family members, which would translate into income for millions of Pakistanis. Another facet of this development is the demographic change that would occur at Gwadar and its surrounding areas, relieving population loads at major cities like Karachi. It is a basic fact that the coastal areas achieve faster growth than do the inland areas, even in the same country; Gwadar would not be a different story.⁹¹

As discussed earlier, the Gwadar port is still in its infancy and only assumptions can be made to establish the volumes of trade expected to flow through the port and corresponding revenue generation. The interpolation of above estimates suggests that the Gwadar port has the potential to attract great volumes of trade, generate thousands of jobs and gather significant revenues. Given the potential, it is confidently argued that the Gwadar port will help to revive the economy of Pakistan. Translation of this potential into economic gains dictates that the port and its ancillary projects are handled professionally through carefully articulated policies.

E. POLICY GUIDELINES

Running a port used to mean serving the import and export needs of a well defined hinterland; this concept, however, changed long ago with the introduction of containerization and establishment of hub ports. Not realizing the revolutionary changes in the maritime sector, Pakistan treated existing ports of Karachi and Qasim as the only places for loading and unloading of cargo. In this era of globalization, the ports have increasingly become a node for economic integration and ports act as maritime logistic centers, which engulf much larger aspects of business and industry. At present, over thirteen different ministries handle maritime affairs of Pakistan. A paradigm shift is

⁹⁰ World Bank, "World Bank Port Reform Tool Kit," <http://www.worldbank.org/html/fpd/transport/ports/toolkit.htm> (accessed August 22, 2004).

⁹¹ Jeffrey Sachs, "The Limits of Convergence: Nature, Nurture, and Growth," *The Economist* (14 June 1997): 19.

required in policy-making circles of Islamabad to treat the Gwadar port, its associated projects as well as the industrial and civic projects at Gwadar city, as a single entity to ensure coherence and coordination of all governmental policies. A sovereign board of governors that includes government as well as private sector representatives is considered the best option to formulate long term plans and overview their implementation.

The government of Pakistan has already declared that the second phase of the port will be built through private sector participation; it remains to be seen how the port will be operated. There are four basic port management models that involve public and private sectors to varying degrees (see Table 5). Both of Pakistan's domestic ports fall under the "public service" category. Their efficiency has mostly remained sub-optimal and participation in the national economy minimal. Both ports also suffer due to complex bureaucratic channels and in the hands of politicized labor unions.

Table 6. Basic Port Management Models⁹²

Type of Port	Infrastructure	Superstructure	Port Labor	Other Functions
Public Service	Public	Public	Public	Majority Public
Tool Port	Public	Public	Private	Public/Private
Landlord Port	Public	Private	Private	Public/Private
Private Service	Private	Private	Private	Private

The first phase of the Gwadar port has provided basic infrastructure through public sources and the private sector is being involved for building the infrastructure in the second phase. In line with current business trends, motivation to bring in the private sector is to increase efficiency and lower the burden on the public sector. Most of the world ports are presently being managed through private sector enterprises, which have evolved through networking of ports and the shipping industry under their control. The best part being that once they are involved in the management of a port, revenue and efficiency aspects are taken care of. The Karachi port is already operating a container

⁹² World Bank, "World Bank Port Reform Tool Kit," [Hhttp://www.worldbank.org/html/fpd/transport/ports/toolkit.htm](http://www.worldbank.org/html/fpd/transport/ports/toolkit.htm)H (accessed Aug. 22, 2004).

terminal through the private sector. In order to attract major investments from the private sector, the government needs to allow their greater role as well. Therefore, the best option for management of the Gwadar port project is through the concept of a landlord port.

Notwithstanding the importance of the private sector, major policies and regulations would still be required from the government. As far as monitoring and provision of a competitive and conducive environment are concerned, regulations may enhance port efficiency while excess regulations result in bureaucratic hurdles and discourage private sector participation. Minimal government intervention in the day to day routine of the port affairs is therefore recommended.

Today's businesses demand transparent, competitive and long-term policies. Pakistan's government officials have occasionally announced special economic measures for Gwadar, including the declaration of Gwadar as a Special Economic Zone and tax holidays of up to seven years. However, so far there is no single document dealing with the port, its ancillary projects, and establishment of trade and industry in the area. As the first phase of the port is already complete, in order to show the government's resolve and commitment, Islamabad needs to issue a white paper containing all the policies related to the port operations as well as establishment of the business in the area.

F. CONCLUSION

Economy is an essential element of national power and is fundamental to the strength and stability of a country. The Gwadar port will attract investors, create job opportunities, and open up new vistas of economic development in the coastal region and add significant revenues in national economy. The port also comes as a much-needed national requirement in the wake of the rise in cargo traffic at existing ports. More importantly, other development projects, for example, the Makran coastal highway, industrial estates in the region, and the Saindak project, are a few of the welcome spin offs of the Gwadar project. Besides the economic gains, substantial political benefits can be accrued from providing seaport facilities to the regional countries, especially land locked states.

Although there is an enormous quantum of trade that could flow through the Gwadar port, it is also faced with the tough and challenging task of competing with

developed ports of the region. Concerted efforts are required for creating conducive environment for the industrialization of this region based on strategies, program and scientific approach and efficient directions to make it a comprehensive and competitive project. It is, therefore, recommended that Islamabad should issue a white paper containing all policy matter of the port as well its ancillary projects.

IV. GEOSTRATEGIC IMPERATIVES OF THE GWADAR PORT

A. INTRODUCTION

China is helping Pakistan to build this port as well as a host of associated projects such as railroad links, industrial complexes etc. India and Iran are raising eyebrows over the increased Chinese presence, which is also attracting the attention of the United States. Regionally, India and Pakistan are involved in an intense security dilemma and Iran is struggling to assert its influence as a regional power broker. Natural resources of Central Asia can only find their way to the Gwadar port through Afghanistan, which is in a state of persistent instability since many decades ago. An environment of suspicion has already started fermenting in policy making circles of all the concerned states due to increased Chinese presence in the Indian Ocean, and it could particularly blow out of proportion if it turns out to be a prelude to a military presence.

In the aftermath of the Global War on Terrorism (GWOT), stemming from September 11 incidents involving a majority of the terrorists from Middle Eastern countries and their heavy crackdown, American support is dwindling in the Middle Eastern countries. The United States, due to its strategic interests in the area, is maintaining a heavy military presence in the area. The requirement of a base in close proximity of the Persian Gulf may arise if the United States decided to pull out its forces from the Middle East. In this context, one would not rule out the United States' desire to have military basing rights at the Gwadar port, as there are abundant occasions of extending such facilities by Islamabad in the past. This would, however, surely trigger an uproar in Chinese circles and Pakistan's time tested entente cordiale and strategic partnership could be put to an extreme test. Additionally, such an eventuality will put Pakistan in a very odd situation vis-à-vis Middle Eastern countries.

What policies should Pakistan formulate to attract the cooperation of competing nations and dispel notions of strategic mistrust amongst these nations? Success of the port project is essential for the growth of Pakistan's economy. The GWOT, lack of thaw between India and Pakistan, and Pakistan's delicate internal political situation are some of the facets affecting the Gwadar port, and they demand careful handling by Pakistan.

This thesis argues that “reassurance” measures are required to defuse suspicions about the perceived long-term political, military and economic objectives of all concerned states, particularly the United States and China.⁹³ India and Pakistan are engraved in an intense “security dilemma” and to normalize relations Pakistan needs to tailor “influence” strategies and initiate positive engagement.⁹⁴ Afghanistan is a landlocked country and heavily depends on Pakistan for its economic revival. Pakistan, despite estranged relations, will have to evolve “positive incentives” to keep Kabul “engaged” in order to ensure the safe passage of natural resources of Central Asian States. Relations with Iran also dictate similar strategies.⁹⁵

Pakistan is in middle of a complex strategic and security situation; only appropriate policies can ensure the success of the port project, which is not only vital for Pakistan’s economic prosperity, but also for security. The chapter will, therefore, be structured to evaluate the strategic environment surrounding Pakistan, highlighting interests of various regional and global players concerned with the port project. In the conclusion, this thesis will draw common points evolved from the discussion of interests of these states in order to recommend policy options for Islamabad.

B. STRATEGIC SITUATION OF PAKISTAN

President Clinton, during his trip to the region in the year 2000, explained the strategic situation of South Asia by declaring it as “the most dangerous place on earth,”⁹⁶ and the world witnessed two nuclear states, India and Pakistan, eyeball-to-eyeball with military machines ready to pull triggers during 2002. Historian Daniel Moran suggested that South Asia would see more than their share of irredentist and secessionist wars, arising in part from conditions that European imperialism created and left unresolved; and India and Pakistan have already fought three wars.⁹⁷ Throughout South Asia, the

⁹³ Janice Gross Stein, 431-451, and Banning Garrett, 9-15.

⁹⁴ Robert Jervis, Ch.3., Charles L. Glaser, July 1992, Susan Peterson, Chap 2., George L. Alexander, December 2003.

⁹⁵ Thomas Bernauer and Dieter Ruloff, 167, Richard N. Haass and Meghan L. O’Sullivan, 9.

⁹⁶ Judith Miller and James Risen, “A Nuclear War Feared over Kashmir,” *New York Times*, Sec A8, 8 August 2000.

⁹⁷ Daniel Moran, *Wars of National Liberation* (London: Cassell, 2001), 131.

search for prosperity is too often overshadowed by the specter of war.⁹⁸ The situation on the western side, though less grave, is no different than the east. Pakistan's desire to maintain safe borders in the west have often been met by a checkered response by Afghanistan in the name of the Durand Line controversy and Pushtoonistan issues, and by Iran due to Pakistan's relations with the United States and Middle Eastern countries. Pakistan's role in the recent Global War on Terrorism (GWOT) has made these relations more precarious.

Additionally, the perception of an increased Chinese presence due to the Gwadar port has added a new dimension to the complexity of the security situation for Islamabad. Not to exclude prospects of the United States, dismayed from increasingly uncomfortable presence in the Middle East, requesting basing rights from its present "front line state" (which has historically provided such facilities to the United States) at the port; inviting uproar within Chinese circles as well as putting Islamabad in very odd situation vis-à-vis Middle Eastern countries. Conversely, the Chinese decision to increase military presence to safeguard its interests in the area could trigger an unending spiral of security issues, replicating a Cold War situation.

In this complex geostrategic situation there is optimism for the port's success. This thesis argues that it was basically the logic of economic interests that brought the international community into broad-based, deep and mutually beneficial relationships at the dawn of the new millennium. In the twenty-first century, the International institutions have the capacity to enhance the prospects for cooperation among states and even hard core realist Mearsheimer admitted that the prospects for cooperation are abundant in this promising new world.⁹⁹ And major sea powers, capable of disrupting the Sea Lanes of Communication (SLOCs), have agreed that the Indian Ocean should remain peaceful.¹⁰⁰ It is, therefore, hoped that the military deglobalization brought about by the end of the

⁹⁸ Christina Rocca, "Prospects of Peace in South Asia," *DISAM Journal of International Security Assistance Management*, (Fall 2002/Winter 2003).

⁹⁹ Ikenberry. G. John, *After victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars*, (Princeton, N.J.: Princeton University Press, 2001), 33-49, and John J. Mearsheimer, *The Tragedy of Great Power Politics*, (New York: W.W. Norton Company, 2001), 1.

¹⁰⁰ Peter Lehr, "The Challenge of Security in the Indian Ocean in the 21st Century: Plus ça change...?," *South Asia Institute, Department of Political Science, University of Heidelberg*, Working Paper No. 13, (November 2002): 15, [Hhttp://www.sai.uni-heidelberg.de/abt/SAPOL/HPSACP.htm](http://www.sai.uni-heidelberg.de/abt/SAPOL/HPSACP.htm)H (accessed February 23, 2005).

Cold War will help defuse the volatile situation surrounding a project which not only can benefit Pakistan, but the whole world.

Intra-regional disputes, the arms race and the absence of spirit of mutual co-existence among the littoral states have encouraged the outside powers to manipulate the littoral weaknesses and create dissention in their ranks. Big powers have always tried to maximize their influence in the littoral states by applying the tactics of diplomacy, maritime bases and naval forces to make use of vast concentration of resources. In this perspective it will be prudent to analyze the regional politico-economic interest of regional and extra regional powers. General interests of concerned countries will precede their points of contention in order to evaluate if the Gwadar port can help convert contentions into cooperation and help Pakistan evolve a strategy to foster this cooperation.

C. INTERESTS, INTERRELATION & CONFLICTS OF REGIONAL AND EXTRA REGIONAL POWERS

1. Pakistan's Interests in the Region

Pakistan has a strategic location in the Indian Ocean region. On the west is Iran, which has traditionally been a close ally. On the east is India, which is seen as a potential adversary. In the north is China, which has been a close friend, and to the northwest is Afghanistan, which is likely to remain friendly towards Pakistan because of her geo-economic compulsions. On the other hand, Pakistan is also located strategically in the vicinity of the Persian Gulf and acquires a special significance as nearly 17 million barrels of oil passes through the Strait of Hormuz daily.¹⁰¹ About 90 percent of Pakistan's trade is sea-borne and its SLOCs are passing through the Indian Ocean.¹⁰² Development of a commercial port at Gwadar on the northern extremities is another important factor for Pakistan's interest in the region.

Economic dependence of Pakistan on sea routes for trade and commerce is of cardinal importance for the country's survival as an independent sovereign nation. The importance of the coast of Balochistan (where the Gwadar port is being made) was

¹⁰¹ Dr Moonis Ahmer, "Indian Ocean: Maritime Security and Confidence Building," *Indian Ocean Security and Stability in the Post-Cold war Era*, (1995): 264.

¹⁰² Rasul Bakhsh Rais, "Pakistan's Maritime interests and Policy," *Indian Ocean Security and Stability in the Post-Cold War Era*, (1995): 189.

realized by the CIA in the 1980s citing “its strategic location near oil routes from the Persian Gulf.”¹⁰³ Soviets, prior to breakup, for a long time had desired expansion towards the warm waters of the Arabian Sea.¹⁰⁴ Pakistan and Iran had also long believed that the USSR hoped to gain warm water ports and the same is manifested in assessments of the CIA.¹⁰⁵ A time has come where chairman of the Gwadar Port Authority, Rear Admiral Sarfraz Khan, said, “It was a long-standing desire of these states to reach warm waters and now we have ourselves offered this opportunity to them.”¹⁰⁶

In the aftermath of the Gulf War and the fall of the Taliban in Afghanistan, the political map of the region is being reshaped and new political trends are emerging. The United States, China and India are flexing their muscles to enhance their influence in the area. The United States and Pakistan’s relationship has been like a roller-coaster ride, marked by alliance and close partnership during the Eisenhower, Nixon and Reagan Administrations and cool or tense relations when Kennedy, Johnson, Carter and Clinton occupied the White House.¹⁰⁷ This long and checkered relationship has its roots in the Cold War and South Asian regional politics of the 1950s.¹⁰⁸ Present dictates of the GWOT have once again brought Pakistan back in the camp of the United States.

China’s relations with Pakistan are the strongest in the Indian Ocean region. And from Pakistan’s side President Musharraf reiterated the historical bond by saying that “China has been our most consistent ally over the past 30 years,” adding “Washington’s interest is likely to diminish.”¹⁰⁹ Pakistan, with antagonistic relations with India, actually sought a powerful ally to keep Indian attempts of regional hegemony at bay.

¹⁰³ Central Intelligence Agency, *National Foreign Assessment Center Memorandum CIA/PA/B0-10015-m Pakistan* dated 10 January 1980.

¹⁰⁴ William R. Keylor, *Twentieth-century World* (New York: Oxford University Press, 2001), 500.

¹⁰⁵ Central Intelligence Agency, *National Foreign Assessment Center Memorandum CIA/PA/B0-10015-m Pakistan* dated 10 January 1980.

¹⁰⁶ Ashraf Khan, “Pakistan Fishing Village undergoes Transformation into global mega-port,” *Agence France Presse*, (September 14, 2003).

¹⁰⁷ Kux Dennis, “Pakistan: Flawed Not Failed State,” *Foreign Policy Association Headline Series*, No. 332, (Summer 2001): 76.

¹⁰⁸ Foreign Affairs, Defense and Trade Division, *Pak-US Relations*, CRS Issue Brief for Congress-December 2, 2003.

¹⁰⁹ Zahid Hussain and Jay Solomon, “Pakistan’s Ties to Beijing Face New Challenges; Abduction of China Workers Forces Musharraf to Balance Militant War, Ally Interests,” *Wall Street Journal*, A.20, October 12, 2004.

In the recent past, India and Pakistan have entered into a “composite dialogue” and there is a reasonable optimism that even if longstanding disputes like Kashmir and Siachean are not resolved, a working relationship could be established for the collective good of the people. Iran, India and Pakistan are working closely to strike a deal over a gas and oil pipeline from Iran to India through Pakistan. Indian and Pakistani authorities are also endeavoring to materialize Turkmenistan-Afghanistan-Pakistan (TAP), which would terminate in India and would go even beyond.

Optimism thus exists to foster economic cooperation amongst all concerned states and the Gwadar port can provide common ground in this regard. Interest and response of the United States’ in the port project will have far reaching affects in both its operationalization as well as the stabilization of the strategic situation in the area, which are discussed in ensuing paragraphs.

2. United States Interests

Can the Gwadar port project harness enough United States attention to stimulate its interest in keeping the region stable? Substantially improved capacity of the United States to project power confirms her intentions to take a more active role in the affairs of this region. Although the termination of the Cold War ended a pretext of heavy U.S. naval presence in the Indian Ocean, American policy makers were still “preparing for two major theater wars (MTWs) in Northeast Asia and the Persian Gulf.”¹¹⁰ That is why, in May 1997, in the Quadrennial Defense Review (QDR), the Navy retained its 12 Carrier Battle Groups and 12 Amphibious Ready Groups (ARGs). U.S. academia has its own ambitions, Koburger, Jr., in his book *Sea Power in the Twenty-First Century*, projected that by 2021, the U.S. Navy should have 7 super carriers plus reserves and a sealift capability of 12 Marine Expeditionary Units.¹¹¹ The United States has an interest in keeping the oceans open to all, which is evident from the presence of, at the minimum, U.S. Middle East Force in the Persian Gulf since 1949.¹¹²

¹¹⁰ U.S. Department of Defense, “Quadrennial Defense Review Report,” Sep 2001, [Hhttp://www.militaryinfo.com](http://www.militaryinfo.com)H (accessed on February 20, 2005).

¹¹¹ Charles W. Koburger, Jr, *Sea Power in the Twenty-First Century*, (London: Praeger 1997), 116.

¹¹² Joseph s. Nye Jr, *The Paradox of American Power*, (New York: Oxford University Press, 2002), 145.

In 1992, the Pentagon drafted a new grand strategy designed to preserve unipolarity by preventing the emergence of a global rival.¹¹³ Although the strategy never saw approval at the time due to severe internal resistance, it did generate discussions across the board by academia as well as different states. The focus being, is the unipolar world stable?¹¹⁴ Interest in this discussion is to elucidate the United States' role in the Indian Ocean. Charles Krauthammer argued that unipolarity is durable and peaceful, but the chief threat is the United States' failure to do enough.¹¹⁵ What is the United States required to do in this area and why? It is talked about more often than not that China and the United States are destined to be adversaries as China's power grows.¹¹⁶ Both states so far, however, have shown restraint and avoided situations that can destabilize the area.

In the Middle East, the United States' main ally, Saudi Arabia, has 261 billion barrels of proven oil reserves (more than one-fourth of the world total) and up to 1 trillion barrels of ultimately recoverable oil.¹¹⁷ Shortly after the Arab oil embargo in 1973-74, the United States (and other Western countries) created the Strategic Petroleum Reserves (SPR) as the nation's first line of defense in case of an oil crisis. In November 2001, President Bush made an unprecedented decision to fill the SPR to its full capacity of 700 million barrels.¹¹⁸ And in 2001, the United States imported 54 percent of its oil requirements, out of which 30 percent came from the Persian Gulf region.¹¹⁹ The United States economic prosperity and strategic security, therefore, depends on an uninterrupted supply of oil.

The September 11 terrorist attacks against the United States by militant Muslims, predominantly Saudis, have created a significant challenge to the long-term partnership

¹¹³ Patrick Tyler, "The Lone Superpower Plan: Ammunition for Critics," *New York Times*, A 12, March 10, 1992.

¹¹⁴ William C. Wohlforth, "The Stability of a Unipolar World," *International Security*, Vol. 24, No. 1 (Summer 1999): 5-41.

¹¹⁵ Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs*, Vol 70, No. 1 (Winter 1990/1991): 23-33.

¹¹⁶ John J. Mearsheimer, 4.

¹¹⁷ Bahgat Gawadat, "Oil and Militant Islam: Strains on US-Saudi Relations," *World Affairs*, (Winter 2003).

¹¹⁸ Bahgat Gawadat, 2003.

¹¹⁹ Energy Information Administration, *Energy Situation Analysis report: May 3, 2002*, [Hwww.cis.state.mi.us/mpsc/reports/energy/02summer/oilimports.htm](http://www.cis.state.mi.us/mpsc/reports/energy/02summer/oilimports.htm)H.

between Washington and Riyadh.¹²⁰ Trickling control over the Middle Eastern region would also mean loosening its grip over the dynamics of the region. For this reason, the United States desires a strategic alternative of Middle Eastern oil, and natural resources of CARs are bound to become a strategic alternate of the U.S. oil supply. Pakistan's Gwadar port is one of the probable sites to provide an outlet to CARs natural resources, via Afghanistan. Only a few days before the September 11 attack, the U.S. Energy Information Administration documented Afghanistan's strategic "geographical position as a potential transit route for oil and natural gas exports from Central Asia to the Arabian Sea."¹²¹ American intervention into Afghanistan in pursuit of suspected terrorists has only further complicated an already delicate regional balance. Hopes of keeping economic interests alive nevertheless remained alive even after U.S. operations in Afghanistan, as the New York Times reported on December 15, 2002 that, "The State Department is exploring the potential for post-Taliban energy projects in the region."¹²² The future of Afghanistan will determine the future of United States influence over the routing of CAR resources through this area. Circumstances after the unfortunate September 11 attacks not only brought an 'old ally' (Pakistan) back into its camp, but also suited its alternate strategic oil supply plans. Although a reasonable portion of U.S. oil tycoons support CARs oil supply through Iran, the policy goals oppose the building of a pipeline that transits "energy competitor" Iran, or otherwise gives it undue influence over the region.¹²³

Desire for a strategic alternate of oil aside, the indications of wearing American commitment in the Middle East does not necessarily indicate lowering of its resolve in the area as the Pentagon is becoming increasingly interested in the concept of mobile offshore bases for deployment in the Persian Gulf, to ensure the U.S. military access to

¹²⁰ Bahgat Gawadat, 2003.

¹²¹ Energy Information Administration, *Oil, war, Geo-Politics and Hegemony*, [Hhttp://www.eia.doe.gov](http://www.eia.doe.gov)H.

¹²² Niall Ferguson, "The Way We Live Now," *New York Times*, Section 6, Page 39, Column 3, December 15, 2002.

¹²³ Foreign Affairs, Defense and Trade Division CRS Issue Brief for Congress, *Central Asia: Regional Developments and Implications for US interests*, October 3, 2003, CRS-13.

critical regions in the future.¹²⁴ Persian Gulf and Indian Ocean areas are, therefore, likely to remain the priority of United States policy makers for the foreseeable future. Naval presence is likely to increase even further due to increased discontentment in Middle Eastern countries and declining acceptance of U.S. ground forces. This presence will have a direct bearing on the Gwadar port project, and it ought to have positive effects.

In the same context, one would not rule out the United States' desire to have military basing rights at the Gwadar port, as there are abundant occasions of extending such facilities by Islamabad. This would, however, surely trigger an uproar in Chinese circles and Pakistan's time tested entente cordiale and strategic partnership could be put to an extreme test. Additionally, such an eventuality will put Pakistan in very odd situation vis-à-vis Middle Eastern countries. Chinese probable response to such a request will be discussed in subsequent paragraphs under the heading of Chinese interest in the area.

Next, one would discuss Washington's potential response if China increases its military presence in the Indian Ocean. The United States' view of the threat and the stakes in the India Ocean, particularly the Persian Gulf, has its source in misunderstandings of the events of the 1970s; that of a severe oil supply crisis in the 1990s – and probably beyond. President Carter's statement in his 1980 State of the Union address, subsequently labeled as the "Carter Doctrine," that "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."¹²⁵

As far as the United States is concerned, China has not replaced Russia as a significant global threat. China, nonetheless, is likely to be a major American foreign policy problem of the twenty-first century and the evidence suggests that China will probably be powerful enough to challenge America's preferred order in Asia and may, indeed, wish to do so. A serious security situation may arise if China chooses to increase

¹²⁴ Jason Sherman, "Pentagon Group Details Sea Base Concept," *DefenceNews.com*, [Hhttp://www.defensenews.com/sgmlparse2.php?F=archive2/20031027/atpc7674087.sgm](http://www.defensenews.com/sgmlparse2.php?F=archive2/20031027/atpc7674087.sgm) (accessed March 23, 2005).

¹²⁵ Robert H. Johnson, "The Persian Gulf in U.S. Strategy: A Skeptical View," *International Security*, Vol. 14, No. 1 (Summer, 1989): 123.

its military presence on the pretext of protecting its interests linked with the port project. Pakistan, being the country housing this port, will have to convey the port's "utility" terms in the most explicit way to dispel port's military usage by any of the states.

The Indian Ocean region has remained and will be an area of interest for the American policy makers. It is, however, a well recognized fact that the United States helps to "shape the environment" (in the words of the Pentagon's quadrennial defense review) in various regions.¹²⁶ Pakistan does need that help to ensure success of its port project. Notwithstanding internal dynamics, which are pushing policies, overall economic and strategic interests ought to drive the United States to foster cooperation amongst states of the region. The United States "assured" stabilization in the area will guarantee success of the Gwadar port project, and Islamabad needs to formulate policies that can attract such "assurance." China, being an emerging power and largest stakeholder in the port project, has an equally important role; Chinese interests and intentions are therefore discussed in ensuing paragraphs.

3. Chinese Interests

China is an emerging global player with significant influence in the area as it is the only great power that is contiguous to South Asia. One estimate suggests that, with the present remarkable growth rate, it is expected to reach to the level of world's largest economy of the United States by 2020.¹²⁷ China's desire to play an important role in the Indian Ocean stems from its historical association with the region and the presence of her vital sea trade routes in the area. Its long-term interests in the Indian Ocean are both economic and politico-strategic. Chinese government concerns about energy security in an oil import era, however, continue to dominate its strategic thinking.¹²⁸

According to Mearchiemer, if China becomes an economic powerhouse it will almost certainly translate its economic might into military might. Thus, Chinese military might will appear more dangerous to its neighbors and complicating America's commitments in the region.¹²⁹ As part of China's revised doctrine of waging "modern

¹²⁶ Joseph s. Nye Jr, 144.

¹²⁷ Joseph s. Nye Jr, 19.

¹²⁸ Anonymous, "Caspian energy: Looking East," *Energy Economist* (November 1998).

¹²⁹ Joseph s. Nye Jr, 20.

warfare under high technology conditions on the high seas,” the People’s Liberation Army Navy (PLAN) is developing a blue-water capability by 2015-20, centered around at least two aircraft carrier battle groups for the Indian and Pacific Oceans.¹³⁰ The July 1992 report of the General Logistics Department of the People’s Liberation Army outlined the plans for the expansion of Chinese naval capabilities through construction of three large bases by 1998, and called for stepped-up naval visits in the Indian Ocean and more frequent port calls to foreign countries in the region.¹³¹

For China, South Asia, West Asia, Africa and even Europe through the Indian Ocean is closer than the U.S. West coast across the Pacific.¹³² At present, China is not in a position to interfere effectively in the Indian Ocean, yet owing to her growing navy and her interests she can exercise considerable influence in the region. In the present unipolar environment, China wants to take the role of a major participant in the establishment of a new type of world order. This cannot be achieved with having the Indian Ocean region out of her influence.¹³³ Similarly, China also resents the hegemonic designs of India towards the Indian Ocean and has always exhibited her opposition to such Indian attempts. China also suspects India of supporting superpower presence in the Indian Ocean as a means of countering China. The most serious challenge is that the U.S. military presence in Central, South and South-East Asia may undermine Chinese influence in these regions and make it more difficult for China to achieve its security, economic and energy objectives in the future.¹³⁴

The Chinese are well aware of the geostrategic realities and have been engaged in diplomatic, economic and military activities to build a maritime infrastructure to safeguard their maritime interests.¹³⁵ Present Chinese commitment to build-up

¹³⁰ Rahul Bedi, ‘India and China vie for regional supremacy’, *Jane’s Intelligence Review*, (September 01, 2000).

¹³¹ Ritcheson, Philip L., “Nuclearization in South Asia,” *Strategic Review*, (Fall 1993).

¹³² M Anwar, *Roles of Smaller Navies* (Rawalpindi: The Army Press Club, 1999), 33.

¹³³ Sun Shihai, “Chinese Perception on Indian Ocean Security”, *Seminar on Indian Ocean Security and Stability in the Post-Cold war Era*, (1995).

¹³⁴ Nan Li, “11 September and China: Opportunities, Challenges and War Fighting,” Working Paper No. 32, *Institute of Defense and Strategic Studies* (September 2002).

¹³⁵ S N Kohli, *A Maritime Strategy for India, Sea Powers and the Indian Ocean* (New Delhi: 1978), 123.

infrastructure is impressive as it is probably the start of long-term Chinese intent in the Indian Ocean. The same is also evident from her assistance for construction of the Gwadar Port at the northern most tip of the Indian Ocean. It would not be long before the Chinese Navy would make its presence felt in the Indian Ocean in support of its economic and maritime interests. China has already consolidated its access to the Indian Ocean through the Karakoram Highway and Karachi and Gwadar ports, through the China-Burma road to Burmese ports, and through the Malacca Straits. For China, the second stake holder in the Gwadar port project, the port offers a strategic toehold in the energy rich region of CARs and provides an alternative trade link to its western provinces. Xinjiang Province lies 4,500 kilometers from China's east coast but just 2,500 kilometers from Gwadar. This will make it possible for China to route some of its external trade through the Gwadar port.

China's growing military strength vis-à-vis her central geographic location and her desire to become a pre-eminent power in the region suggest that China has to play an important role in the future conflicts of the region. The regional balance and stability in South Asia and Pakistan's healthy development are two major interests for China in addition to safeguarding her own interests. Chinese desire for an increased role in the area could seriously jeopardize if Islamabad chooses to consider any United State request for Maritime bases, particularly at Gwadar.

International relations theorists suggest that as a nation becomes more prosperous and more integrated into the world economy, it will become more democratized and more anxious to preserve the world order that has made its prosperity possible. It is therefore envisaged that the Chinese would not venture into military presence on the name of safe guarding interests at the Gwadar Port and stir up a never-ending spiral of seriously destabilizing events. Pakistan will have to ensure appropriate policies to dispel any such contemplation by Beijing.

Having discussed interests of both the United States and China, capable of stirring complexity of the strategic situation, this thesis will now turn to Iran, a probable economic competitor with regards to Gwadar Port, which has long been waiting opportunities to establish its dominant role in the region.

4. Iranian Interests

The Persian Gulf is an important trade route in the strategic northern reaches of the Indian Ocean. Some 80 percent of the world's oil tankers leave the shores of the Persian Gulf destined to other parts of the world.¹³⁶ Geopolitical location of Iran within the Persian Gulf region is such that the northern shores of this Gulf belong entirely to Iran, which enables her to control the Strait of Hormuz. Passage through Hormuz is an issue of concern several times a year when Iran holds its war games at the mouth of Gulf.¹³⁷ Iran regards her role in the Indian Ocean as an extension of her interests in the Gulf due to important geographical location at the mouth of Persian Gulf.

Iran, too, is concerned with her economic interests associated with the Indian Ocean. Supply of natural gas to India, via a pipeline through the Indian Ocean, is one of Iran's mega projects. Additionally, the Iranian port of Chahbahar, located on the mouth of Gulf, could become the hub of commercial activities if the natural resources of CAR find the way to rest of the world through this port. Iran's situation with respect to its influence on the CARs and its desire to mend fences with the West suffers many impediments.

Turkmenistan sees Iran as one of the export routes for both oil and gas; even many of the oil tycoons see it as a viable option but the United States is pushing hard for alternative routes.¹³⁸ Washington advocates the construction of pipelines in several directions from the Caspian Region, explicitly excluding Iran.¹³⁹ Although Iran has seen some investment from the EU (particularly France) and India, it largely remains isolated from the international monetary system. Its isolation thus enhances prospects of Gwadar port success.

Historically, Iran had warm relations with Pakistan more often than not. Both countries being candidates of a transit route for CAR natural resources, as well as trade, may well eventually end up on an adversarial path. Additionally, increased Indian

¹³⁶ Danesh Pajooh, "Iran and the Strategic Significance of the Persian Gulf", *Indian Ocean Security and Stability in the Post-Cold war Era* (1995): 223.

¹³⁷ Donna J. Nincic, "Sea Lane Security and US Maritime Trade: Chokepoints as Scarce Resources," in Sam J. Tangredi, 157.

¹³⁸ Anonymous, "Caspian energy: Looking East," *Energy Economist* (November 1998).

¹³⁹ "The Geo-Politics of Caspian Oil," *The Janes Intelligence Review*, (July 01, 2000).

influence in Iran is considered an attempt of “encircling” Pakistan. In this situation, Pakistan needs to initiate “positive engagement” with Iran to safeguard its interests in the area.

Discussion of an economic competitor now leads to evaluating interests and intentions of India, another emerging power with growing economic interests and with whom Pakistan’s relations have mostly remained of animosity: India.

5. Indian Interests

India is perhaps the only country on the Indian Ocean that has the economic potential, military strength and the political will to dominate this vast expanse of water.¹⁴⁰ Indian leaders and strategists have traditionally viewed the Indian Ocean region as a sort of Indian security zone, very loosely akin to the way Americans have viewed Central America and the Caribbean; or the way Russians have viewed Poland; or the way Chinese have viewed Korea. Although Indian leaders have not explicitly laid out such a regional doctrine, Indian behavior in the Indian Ocean has generally conformed to such and implicit doctrine.¹⁴¹

India’s dominant physical features and geographical location in the Indian Ocean indicate its dependence on the sea for both prosperity and security. India does not have any significant land access to the rest of world. Hostility with Pakistan and a difficult geography that separates India from China and Burma dictates that over 97 percent of India’s trade is done through the Indian Ocean; therefore, India has critical interests in maintaining the seas be open. India depends, to a large extent, on the import of crude oil and petroleum products for meeting its energy requirements from the Persian Gulf region. India’s production from existing oil fields has been declining over the time, increasing its dependence on the import of oil.¹⁴² And imported oil meets about 60 percent of the Indian petroleum requirements.¹⁴³ India’s Ministry of Petroleum and Natural Gas predicts the country’s demand for petroleum products will jump to 155.3 million metric

¹⁴⁰ S N Kohli, 10.

¹⁴¹ George Tanham, “Indian Strategic Culture,” *Washington Quarterly*, (Winter 1992): 129-42, and Devin T. Hagerty, “India’s Regional Security Doctrine,” *Asian Survey*, (April 1991): 351-63.

¹⁴² Mohan Malhotra, “India’s oil supply deficit spurs reforms to lure foreign capital,” *Oil & Gas Journal*, (June 2, 1997).

¹⁴³ Patrick Crow, “India’s Outlook” *Oil & Gas Journal*, (October 12, 1998).

tons/year (3.106 million barrels per day) by fiscal year 2006-07.¹⁴⁴ To meet additional energy requirements, India seeks to develop economic relation with CARs in collaboration with Iran and desires to have access in this market. For this reason, since the 1990s, Central Asia has come to represent India's extended neighborhood. For India, Caspian energy supplies have a critical strategic drawback in that they must transit Pakistan, with whom relations are continually strained over the disputed territory of Kashmir.¹⁴⁵

Indian strategic doctrine revolves around the protection of its maritime resources/assets, such as offshore oil platforms/rigs and sea-lanes of communication, to ensure smooth flow of trade.¹⁴⁶ There are up to 30 Indian ships at sea in Indian waters at any given time and a much larger number of ships of other nations engaged in trade to and from Indian ports,¹⁴⁷ in addition to 8-10 tankers carrying crude oil to India daily.¹⁴⁸ India is working on the strategy of building up a viable maritime force to deter any potential aggressor and to protect her SLOCs. Joseph S. Nye, Jr., in his book *The Paradox of American Power*, writes that India's military capabilities are impressive in South Asia but not in the larger Asian context.¹⁴⁹ However, its strategic interests extend way beyond that and tend to enter the domain of regional hegemon, which dictates her relations with other countries.

India's relations with other countries have so far been driven by security dictates more than economic compulsions. Its historically estranged relations with Pakistan do not require much discussion, as both countries already have fought three wars and more than half a dozen incidents short of war. The regional power balance vis-à-vis Pakistan has largely determined India's relations with Afghanistan since 1979. Broadly, India has two

¹⁴⁴ Mohan Malhotra, 1997.

¹⁴⁵ "The Geo-Politics of Caspian Oil," *The Janes Intelligence Review*, (July 01, 2000).

¹⁴⁶ Manooj Joshi, "Indian Navy Interests and Trends", *Indian Ocean Security and Stability in the Post-Cold war Era*, (1995): 172.

¹⁴⁷ Brahma Chellaney ed., *Securing India's Future in the new millennium* (New Delhi: Orient Longman Ltd, 1999). 126.

¹⁴⁸ Brahma Chellaney, 126.

¹⁴⁹ Joseph s. Nye Jr, 29.

principle foreign policy objectives when dealing with Afghanistan: to counter Pakistani expansion into West Asia, and use Afghanistan as an access route to Central Asia.¹⁵⁰

In the late 1990s, the United States began to tilt toward India, as Washington and New Delhi turned from 'estranged democracies' of the Cold War to 'engaged democracies' in the post-Cold War era.¹⁵¹ U.S. officials consider strategically engaging India as a "future investment," particularly since the Middle East could become hostile and dangerous to continuing U.S. military presence in the region. If Washington's relationships with its traditional allies - Japan, South Korea and Saudi Arabia - become more fragile, India will emerge as a critical component of U.S. strategy.

When its relations with China come up, the Indian security community feels that extension of Chinese interests to the South Asian portion of the Indian Ocean is potentially harmful for India.¹⁵² India even attributed 1998 nuclear explosions towards its security concern from China. Defense economists, however, estimate that if India continues to spend 4 percent of GNP on defense, in fifteen years its military capital stock would reach \$314 billion, or 62 percent of China's (compared with 48 percent today).¹⁵³ These figures indicate maintenance of parity amongst both countries, leaving Pakistan and other Indian neighbors to deal with Indian military might, if they choose to "catch up" to China. There are, however, reasons to be optimistic since Indian policy seems to be shifting from pure security orientation to economic concerns. Even this shift has the potential to prove a significant factor for resolving outstanding issues with neighboring countries. Pakistan needs to seize this opportunity to normalize its relations with India and reasonable progress is already underway in shape of "composite dialogue."

India's increasing interest in Afghanistan, however, is raising concerns in Islamabad. When Gwadar port is put in operation, Afghanistan will be one of the direct beneficiaries by accessing it for its trade as well as getting royalties when the gas/oil

¹⁵⁰ "External Affairs," *Jane's Sentinel Security Assessment – South Asia* (2002).

¹⁵¹ Dennis Kux, *India and the United States: Estranged Democracies 1941-1991* (Washington DC: National Defense University Press, 1992), 34.

¹⁵² Sanjay Chaturvedi, "Common Security? Geopolitics, Development, South Asia and the Indian Ocean," *Third World Quarterly*, Vol 19, No 4, (1998): 716.

¹⁵³ RAND, *Asian Economic Trends and Their Security Implications*, <http://www.rand.org/publications/MR/MR1143/MR1143.figs.pdf>, 42 & 49 (accessed April 22, 2005).

pipeline is materialized. Afghanistan's strategic situation and its interests in the area in general and the Gwadar port in particular are discussed below.

6. Afghanistan's Interest

Afghanistan has historically remained the center of contention between major powers. History knows one such struggle for mastery in Central Asia by Russia and Great Britain resulting in "the Great Game."¹⁵⁴ Russia again ventured into Afghanistan towards last decades of 20th century, attracting U.S. attention that was looking for suitable opportunity to undo some of the unpleasant memories of Vietnam. This Russian venture ended when, at Politburo meeting on November 13, 1986, the Soviet leaders decided to withdraw troops from Afghanistan by the end of 1988,¹⁵⁵ resulting in the culmination of the Cold War. Hopes of building war torn Afghanistan faded sooner than expected due to internal strife of warlords. The Taliban then came along to fill the leadership gap; they also could not survive long due to United States outrage over the handover of "so called" terrorists after incident of September 11, 2001. Afghanistan is currently in a state of war and nation building, and it is too soon to foresee how things will settle in the long run.¹⁵⁶

Afghanistan lacks a functional economy of any significance. Its agrarian based subsistence economy is not even meeting the basic food requirements of Afghans, forcing the population to survive on foreign donated food. The donors that participated in the Tokyo Conference of January 2002 pledged over U.S. \$4.5 billion to Afghanistan over five years. The World Bank has estimated that requirement of a fund for addressing basic Afghan problems to be around U.S. \$10.2 billion over five years. Based on two years of reconstruction experience, in July 2003, Care International estimated the requirement of funds to be between U.S. \$15-30 billion over a five-year period.¹⁵⁷ So far only a fraction of funds have actually been made available, but whenever reconstruction activities get

¹⁵⁴ Daniel Moran, 230.

¹⁵⁵ Barnet R Rubin, *The fragmentation of Afghanistan* (Yale University press USA, 1996), 146.

¹⁵⁶ Hassaan Vahidy, "Pakistan's gas discoveries eliminate import needs," *Tulsa: Oil & Gas Journal*, (January 28, 2002).

¹⁵⁷ "Main Economic Indicators – Afghanistan," *Jane's Sentinel Security Assessment – South Asia*, (February 4, 2004).

momentum, Pakistan, by virtue of its geographical position, will have to play an important role and the Gwadar port stands bright chances of an active role in the entire reconstruction exercise.

Amongst other projects, the Turkmenistan-Afghanistan-Pakistan (TAP) pipeline was a hope to help revive the Afghan economy. The TAP pipeline project would have proven to be a jackpot for the people of Afghanistan as the project could bring in over \$300 million as royalty to the country.¹⁵⁸ The inflow of this cash and foreign investments could help in stabilizing the country's economy and in reconstructing its infrastructure. It can be argued that a pro-U.S. regime in Afghanistan will be conducive to the involvement of a U.S. firm in the Turkmenistan-Afghanistan-Pakistan pipeline.¹⁵⁹ Afghan transit trade was earlier handled through the Karachi port, and after operationalization the Gwadar port will handle it. Afghan Finance Minister Ashraf Ghani also offered his country's support for development of the Gwadar port, saying it would act as a gateway to prosperity for the entire region.¹⁶⁰ Pakistan needs to keep Afghanistan engaged to facilitate the smooth and economical running of the port.

Discussion of the interests of various states in the Gwadar port with tremendous economic prospects would not be complete if interests of Japan and the European Union are not evaluated. Although both entities do not have any significant political or security interests in the area, their economic interests demand appropriate mention.

7. Japanese Interests

The importance of the Indian Ocean to the Japanese cannot be exaggerated; it would not be wrong to state that the Indian Ocean is a lifeline of Japan. Japan averaged 3.9 million bbl/d of net oil imports from the Persian Gulf during 2002.¹⁶¹ The need to protect her economic interest may one day invoke deeper involvement of her "Self Defense Maritime Forces."¹⁶² Japan presently relies on the forces of the United States and other Western powers for her protection. Japan has no worthwhile political goal in

¹⁵⁸ Ahmed Abbas, "Daulatabad-Gwadar Gas Pipeline Agreement," *The News*, July 7, 2002.

¹⁵⁹ Hassaan Vahidy, 2002).

¹⁶⁰ "Kabul Offers Help for Gwadar," *The Dawn*, (August 5, 2003).

¹⁶¹ Energy Information Administration, *Persian Gulf Oil and Gas Exports Fact Sheet 2004* (September 2004), H<http://www.eia.doe.gov/cabs/pgulf.html>H.

¹⁶² M Anwar, 34.

this region and, with over dependence on this region for raw material and oil, the Japanese have always desired peace here. Japan's energy concerns dictate its policies in favor of oil from a Caspian export pipeline terminating at the Indian Ocean.¹⁶³ Therefore, it is safe to assume that Japan will support the operationalization of the Gwadar port project.

In addition to the United States, Japan will be the most worried nation with increased presence of the Chinese at the helm of the routes to her vital energy resources. Recent economic collaboration, though, has helped both nations to leave their bitter past experience behind. Divergence in interest in the Indian Ocean may strain their relationship. Pakistan will have to "reassure" Japan to alleviate any suspicions of port utility harmful to Japanese interests.

8. European Union Interests

Western Europe averaged 2.3 million bbl/d of oil imports from the Persian Gulf during 2002.¹⁶⁴ EU members possess only about 0.6 percent of the world's proven reserves of oil and 2.0 percent of the world's natural gas, and it is estimated that two-thirds of the EU's total energy requirements will be imported by 2020.¹⁶⁵ The EU is, therefore, heavily dependent on oil transiting through the Indian Ocean. By and large their policy towards the Indian Ocean region has been one of reconciliation and resolution of security issues through the use of "soft power."¹⁶⁶ Their dependence on oil, so called guarded by the U.S., has not encouraged them to seek an active role in problems of either the Middle East or South Asia.

Nevertheless, a strong realization exists amongst European nations to have strategic alternate oil resources reducing their vulnerability to a single area source. Like all others, CARs attracted the EU's attention for which the EU strongly supports an oil and gas pipeline from CARs to the EU through Turkey. The pipeline route to European markets through Georgia and Turkey faces geopolitical turmoil and tough hurdles in its

¹⁶³ "The Geo-Politics of Caspian Oil," *The Janes Intelligence Review*, (July 01, 2000).

¹⁶⁴ Energy Information Administration, *Persian Gulf Oil and Gas Exports Fact Sheet 2004* (September 2004), H<http://www.eia.doe.gov/cabs/pgulf.html>H. (accessed March 21, 2005).

¹⁶⁵ Energy Information Administration, *Country Analysis Brief 2004 – EU*, H<http://www.eia.doe.gov/emeu/cabs/euro.html>H. (accessed March 21, 2005).

¹⁶⁶ Joseph s. Nye Jr's, *The Paradox of American Power* (New York: Oxford University Press, 2002).

realization and actual execution. Separatist tensions in Georgia, instability in the Kurdish areas of Turkey, and unrest over Cyprus near the Mediterranean Turkish port of Ceyhan are some of the problems.¹⁶⁷ In this scenario, the EU is likely to support a pipeline to the Indian Ocean either through Iran or Pakistan. There is negligible evidence of drags in EU relations with states that matter to the Gwadar port project. The EU and China have developed a stable relationship over the last decade, and so far they do not seem worried about Chinese presence in Indian Ocean.

D. CONCLUSION

The above discussion clearly manifests that strategic interests of all nations necessarily stem from the economic interests. Gwadar, with potential to act as a hub port, can facilitate convergence of interests of all states, bringing peace and prosperity in the area. Today, the entire globe is focused on the Middle East and Asia with the primary concern of protecting economic interests in the form of a free flow of oil from the Persian Gulf region, as well as tapping the natural resources of the Central Asian Republics. Friedman puts forward “the Golden Arches Theory of Conflict Prevention”, arguing that economic globalization had made interstate war nearly impossible.¹⁶⁸ Others admit that in today’s world chances of cooperation through economic integration are more than ever in the history of mankind. But the political, economic and military importance of the Indian Ocean has turned it into a major theatre of rivalries. The power politics of littoral states is, of course, as threatening to peace as coveting influence and protecting interests through power projection capabilities by the external powers.

The United States, as a unipolar power, ought to play an important role in keeping the situation stable in the Indian Ocean. One hopes that Krauthammer’s fears on United States failure to do enough resulting in instability of the area do not materialize.¹⁶⁹ Though it might also be possible for the United States to do too much and provoke balancing against it, which would also result in instability. Its role in promoting liberalism is also appreciable so far as it is not stigmatized as imperialist. China and the

¹⁶⁷ Sadia Sulaiman, “US Policy in Oil-Rich Caspian Basin,” *Institute of Strategic Studies Islamabad*, http://www.issi.org.pk/strategic_studies.htm/2001/no_4/article/5a.htm (accessed on February 19, 2005).

¹⁶⁸ Thomas L. Friedman, *The Lexus and the Olive Tree*, rev ed. (New York: Anchor Books, 2000), 464-468.

¹⁶⁹ Charles Krauthammer, 23-33.

United States may not necessarily be adversaries, but rather once again use Gwadar as a platform to promote economic well being of the area; after all, similar understanding in relations of both nations with respect to Pakistan had worked earlier as well.¹⁷⁰ It cannot be overlooked that China has never lost an opportunity to cultivate U.S. goodwill.¹⁷¹ India's ambitions of economic prosperity with over a billion people is justifiable, but not for a role as a regional hegemon.

South Asia has had enough of its share of turbulence without realizing that respective economies may receive a crippling blow by a serious armed conflict and set the clock back years or even decades.¹⁷² Delhi needs to appreciate that United States and Chinese interests in their mutual relationship far outweigh the interests of each vis-à-vis India, and both have high economic stakes in the Indian Ocean.¹⁷³ The lesson for all nations contiguous to Pakistan (with respect to the Gwadar port) is that unbalanced power, whoever wields it, is a potential danger to others.¹⁷⁴ Whereas, the emerging geopolitical environment in the region has led Pakistan to stand again as a strategic front line state for the interests of Extra Regional Powers, safeguarding of its economic interests clearly manifests from present government policies. Pakistan needs to adopt a balanced approach to ensuring stability, security and cooperation rather than conflict and confrontation with its neighbors, as well as the international community.

¹⁷⁰ John J. Mearsheimer, 4.

¹⁷¹ John W. Graver, "The post-Cold War China-India-US Triangle," *NBR Analysis*, (October 9, 2001).

¹⁷² Milan N. Vego, *Naval Strategy and Operations in Narrow Sea* (London: Frank Cass, 1999).

¹⁷³ Garver, John W., "The China-India-US. Triangle: Strategic Relations in the Post-Cold War Era," *National Bureau of Asian Research Analysis*. No. 13(5) (October 2002).

¹⁷⁴ Kenneth N. Waltz, "Evaluating Theories," *American Political Science Review*, Vol 91, No. 4 (December 1997): 915.

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V. CONCLUSION

A. INTRODUCTION

Once a small fishing town along the Makran Coast, Gwadar is poised to become a mega seaport which will fulfill the requirement of four geographically important regions: South Asia, West China, Central Asia, and Afghanistan. The decision to build a port at Gwadar came in the backdrop of increased domestic trade and the world's growing requirements of alternate energy resources. The Gwadar port is strategically located at the cross roads of natural resources of the Middle East and Central Asia, a huge consumer market of Asia with over one third of world population, and at the shortest route to southern provinces of China. It has the potential to bring about significant economic, demographic and political changes for Pakistan in particular, and the entire area in general.

Historically, civilizations have emerged and developed on the shores of the seas and oceans. The role and importance of the oceans in the development of human society cannot be overemphasized as the majority of the world's major cities and urban populations lie within 200 km of a coastline.¹⁷⁵ And from times immemorial, sea-faring nations have always been prosperous and economically stronger than others. Seaports serve as the termination point of the great ocean highways that have been used for trade and commerce for centuries. They play an important role in strengthening the national economy and contribute significantly towards the prosperity of countries.

B. MAJOR FINDINGS

The thesis starts with a vision for Gwadar to be a link between East and West that will change the fate of this region as well as the national economy. The port will usher Pakistan into a new era of socio-economic development. The interpolation of trade expected to flow through the Gwadar port suggests that the port can generate enormous revenues, provided economic and foreign policy options are handled properly.

Chapters II and III conclude that the Gwadar port has the potential to handle not only domestic trade but also act as a transshipment port, which besides boosting trade

¹⁷⁵ Sam J Tangredi, 4.

volume, generates additional revenue just by handling some one else's trade. Worldwide demand of natural resources is increasing at an unprecedented ratio, as is the requirement of shipping terminals to handle this demand. Gwadar port will be able to attract its share of trade for cargo and natural resources.

Although there is an enormous quantum of trade that could flow through the Gwadar port, it is also faced with the tough and challenging task of competing with developed ports of the region. Concerted efforts are required for creating a conducive environment for industrialization of this region based on strategies, program and scientific approach, and efficient directions to make it a comprehensive and competitive project. After synthesis of economic incentive packages and management policies of various ports and industrial zones around the world, particularly of Asian Tigers, a set of policy guidelines has been evolved for the consideration of officials handling the Gwadar port affairs. It is emphasized that some elements of these proposals require a radical departure from Pakistan's traditional economic and trade policies, and a white paper in this regard is considered an appropriate tool to convey consolidated government policies.

The emerging political and economic pattern of the Indian Ocean region is considered the pivot of world affairs due to its extraordinary potential for natural resources and trade routes vital to the entire world. Chapter IV concludes that Pakistan is in the middle of a complex strategic and security situation. The GWOT, lack of thaw between India and Pakistan, and Pakistan's delicate internal political situation are some of the facets affecting Gwadar port, and they demand careful handling by Islamabad.

The United States and key regional players are likely to view Chinese involvement in the Gwadar port project with suspicion. Any potential Chinese long-term military presence in the region will pose complications for Pakistan. The United States may request military basing rights at the Gwadar port to handle some future turbulent situation in the region. Any such eventuality would require Pakistan to strike a difficult balance between a time-tested friend and an ally. Pakistan must enunciate a policy of non-military use for foreign powers of the Gwadar port to help stimulate Pakistan's economic revival.

Although there are plenty of theories that establish the link of foreign policies with the economic dynamics of a country, the following Decalogue was chosen to establish this link and to propose recommendations based on findings of the thesis:¹⁷⁶

1. Gwadar Port can generate necessary resources for the economic revival of Pakistan.
2. But no stability, no economic revival.
3. No growth, no stability.
4. No resources, no growth.
5. No infrastructure, no resources.
6. No money, no infrastructure.
7. No rules, no money.
8. No security, no rules.
9. No broad based cooperation amongst regional and extra regional powers, no security.
10. No efforts, no cooperation.

C. RECOMMENDATIONS

1. Economic

A consolidated white paper is recommended, which should include all economic and administrative aspects of the port and its ancillary projects. Salient features of recommended white paper are:

- Constitute a sovereign board of governors, having government and private sector representation, to handle policy matters of the port as well as the establishment of business and industry at Gwadar city.
- Port operations should be operated through private enterprise (Landlord port concept).
- Establishment of Special Economic and Export Processing Zones.
- 100 percent foreign ownership of industries and services, including land.
- No import/export taxes.

¹⁷⁶ Barnett used the Decalogue for Asian energy future; here it is presented with little modification to suit port's maritime aspects. For details see Thomas P.M. Barnett, "Asia's Energy Future: The Military-Market Link," in *Globalization and Maritime Power*, ed. Sam J Tangredi, 191.

- Unlimited transfer of capital and profits in foreign currency.
- No corporate taxation for a minimum of 15-20 years.
- No personal income tax.
- Abundant inexpensive energy.
- Provision of air/road/rail linkages.
- Cost-effective and skilled labor force.
- High-level technical and administrative support.
- Minimal government intervention, however, full security of the investment.
- Arrangements of Security and Safety.

2. Foreign Policy

The prime objective of Pakistan's foreign policy is to develop beneficial and strong ties with all major powers and maintain cordial relations with its neighbors.¹⁷⁷ Keeping the "efforts" point of the above mentioned Decalogue and declared foreign policy objectives, the government of Pakistan needs to initiate extensive efforts to foster cooperation amongst all players and formulate policies to attract reciprocal cooperation of competing nations, to "reassure" them of benign aspects of this port project and dispel notions of military use of the port by any foreign power. Pakistan needs to reassure India and Afghanistan through demonstration of "restraint" and "irrevocable commitment." Iran could be won over with explicit declarations and through establishing "norms of competition." As far as the United States and China are concerned, both are required to show restraint that could be in the shape of some strategic understanding or even through entering into a "limited security regime."

¹⁷⁷ Government of Pakistan, *Pakistan Foreign Policy*, H<http://www.pakistan.gov.pk/foreignaffairs-division/policies/pak-fpolicy/pak-fpolicy.jsp>H (accessed March 6, 2005).

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