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### **Chinese Interests in Developing Gwadar: Economic Benefits for Pakistan**

*With the increase in Chinese outward foreign direct investment (FDI), policy makers in Beijing had to rethink their foreign policy options. One of the best options for them was to initiate the idea of One Belt One Road (OBOR) in order to revive ancient Silk Routes to facilitate the outward FDI. One part of OBOR passes through Pakistan in the shape of China Pakistan Economic Corridor (CPEC). Gwadar being located strategically at a very important sea trade routes juncture was a great opportunity for China to connect Xinjiang to the Persian Gulf and the Middle East. Gwadar is not only a natural deep sea port but also provides China with the shortest land route to the Middle East. Pakistan being a developing country is in dire need of FDI. Developing Gwadar as an international port would not only generate an increased economic activity within Pakistan but also in landlocked Afghanistan and Central Asia as well. Since Gwadar is located in Baluchistan province which is the poorest region of Pakistan with least physical infrastructure, this port will provide an opportunity to develop this region in special. Chinese firms are really interested to explore the natural resources especially coal, gold and tin of Baluchistan which will definitely bring change in the lives of Balochis. Physical infrastructure development in the form of CPEC will connect the scattered population of Baluchistan with rest of country. This port will also provide great opportunity to other states which do trade with Gulf States.*



## Chinese Interests in Developing Gwadar: Economic Benefits for Pakistan

Adam Saud and Maheen Shafiq

### Introduction

The level of international trade has grown to unexceptional extent after the advent of globalization, both in absolute and relative terms, in relation to national income of a country. The global market is expanding its goods and services. In post-Cold War period, states have become locked in multiple trade relationships among each other. Due to growth of trade extensity and intensity, nations are unintentionally entangled in ever growing international trade activities and communication. Due to increased interdependence and interconnectedness, the impact of trade activity of one state highly affects the economic activity of other states. This is one of the reasons for a healthy economic competition among states. This does not mean that the fortune of a state is determined by its “competitiveness”, rather they specialize according to the state’s comparative advantage. (Held *et al*: 1999) The present global security environment is also affecting the international trade policies.

The development nations face a lot of hurdles in order to align themselves with this new international economic structure. As this structure favors the rich nations, the developing economies are always struggling. There has always been a demand for a new international economic order raised by global South. Pakistan, being a developing state has not been able to come out of its economic crisis. Decades old insecurity at Af-Pak border (since 1979) has further aggravated these economic crises. With the development of globalized concept of trade activity, Pakistan needs to coup with the challenges of the rapidly growth industries and economies. Pakistan has the potential to integrate itself in world trade affairs by the development of its ideal geostrategic position of Gwadar port, in co-operation with China to evolve the trade routes that the world has been keen about. The importance of this region is not a modern international phenomenon but centuries old. The ancient trade routes had to cross this region in order to do trade between east and west. According to Peter the Great "approach as near as possible to Constantinople and India. Whoever governs there, will be the true sovereign of the world. Consequently, excite continual wars, not only in Turkey, but in Persia And, in the decadence of



Persia, penetrate as far as the Persian Gulf advance as far as India." (In today's world, "India" ought to be read as "Pakistan"). (Global Security: 2016)

Despite having a rich, vibrant and healthy labor force, the economy of Pakistan is going through a bumpy road. Mismanagement, corruption and lack of attention to various developmental sectors have caused negative impact on the state economy. The energy sector has always been under dialogue between government and bilateral and multilateral development partners. According to Labor Force Survey 2013-2014 Pakistan has 60.09 million labor force out of which only 56.52 million people are employed, whereas 3.58 million are unemployed. Most of the labor of Pakistan works in rural areas, where the main activity is agriculture. The rate of inflation in Pakistan is recorded 4.02, in February 2016 (Pakistan Observer: 2016). Per capita income in dollars has registered significant growth from \$ 1,333 in 2012-13 to \$ 1,512 in 2014-15 (Ministry of Finance, Government of Pakistan: 2015). Public debt was recorded at 61.8% of the GDP, at the end of March 2015, compared to 62% of GDP in March 2014 (Ministry of Finance, Government of Pakistan: 2015). The pace to recover from debt in Pakistan is very slow, whereas the pace of international economic development is very fast.

Among the theories by International Political Economy, the classical economic theory is effectively applied in this paper. According to Free trade doctrine, which is also called as *laissez-faire*, where governments allow free-trade and does not impose tariffs on imports and subsidies on exports to discriminate trade conducted through or from the country. However, this does not abandon all the control of the state over taxation of imports and exports. The theoretical case of this argument is based on Adam Smith's argument that division of labor among the country will result in specialization and higher aggregation of production (Ministry of Finance, Government of Pakistan: 2015).

Since the middle of 20<sup>th</sup> century, countries have increasingly reduced the barriers in international trade such as tariff and currency restrictions. However, other barriers are equally effective in international trade, which are diverse means of subsidizing the domestic economy. Pakistan, by providing its port to the world will benefit from the taxes, import quotas and diverse means of subsidies. Liberal view is "inside looking out." Fukuyama revived the long held view that the liberal politics and economics will be a mean to end the international conflicts and violence. It will homogenize the foreign policy behavior of countries towards welfare (Ministry

of Finance, Government of Pakistan: 2015). In 1848, John Stuart Mill, is also inclined towards the idea that free trade will bring about end to violent and chaotic situation, and drive human beings towards strengthening and multiplying personal interests (Mills: 1859). Liberal theories in basic sense promote the desire for prosperity, commitment to liberal values at state level. In the post-Cold War era, we have seen the increased economic co-operation on the basis of liberal values, free market and the spread of international institutions (Walt: 1998).

### **Seaborne Trade in the World:**

The earth is covered 71% by sea, therefore more connectivity means emerge from sea. According to United Nations Conference on Trade and Development (UNCTAD), the global seaborne trade has increased by 3.4% in 2014 (UNCTAD: 2015). With the developing economies, sea borne trade and merchandise shipments are expected to grow from 2015 onwards. The developing economies and economies in transition have seen accelerated growth. This growth is due to lowering prices of oil. The price impact largely demands on its duration. However, the broad effects of this general drop, has increased the demand of the economies in transition. This also possess for income shift from oil producers to oil consumers. It is estimated that one US dollar drop in the price of oil and gas export earnings of the Gulf Cooperation Council countries are expected to see loss of around \$300 billion (IMF: 2015). These lowering prices will support the purchasing power of the consumers in importing countries, as has been witnessed after the 2008 financial crises when China did long term oil agreements with the Gulf States. Despite the decelerated record of global merchandise, the growth rate of developing economies and transitional economies have been on rise. These countries have contributed 45.0% in world exports and 42.2% in imports in 2014, as compared to 32.0% and 28.9% export and import in 2000 respectively (UNCTAD: 2015).

The economies in transition have contributed large shares to international seaborne trade. The estimated volume of goods loaded from the ports of these countries make 60% of exports and 61% of imports (IMF: 2015). These trade goods are further divided into various types of cargo, and various regional economies depending on their composition of trade, urbanization and level of development. Pakistan's Gwadar Port has the ability to highly contribute in this



percentage of trade conducted in Asia, due to location in the center of the world. Since 1970s the good loaded and unloaded have seen changing patterns.

### **Development Plan of Gwadar Port**

The development of Gwadar comprises of various plans, among which are early harvest projects which are to be completed in 2017-2018, followed by short-term plans of 2020, followed by middle term plans of 2025 and lastly long term plans of 2030-2050. The government's decision to develop deep-sea port in Gwadar has offered incentives for investment, which has led to rapid economic activities especially real estate (for the time being) in the area. Infrastructure development is another activity which is at its height.

The most important project for Gwadar was the development of Makran Coastal Highway (MCH), which ended the isolation of the region, and reinforced the investors' confidence. In October 2003, Gwadar Development Authority was established to implement the master plan of rapid growth in the town (Gwadar Development Authority: 2016). The development of Gwadar is divided into two phases; phase I has been completed and phase II is under its way. The early harvest projects in Gwadar, of phase II are all the administrative development in Gwadar. They aim at proving civic services to the people and tourist in Gwadar.<sup>1</sup>

### **Strategic Importance of Gwadar**

Ports are important for the development of a nation, as they bring varying degree of benefits to the country not only economically but also socially and politically. In terms of supplier, ports provide cheap and most effective way to transport goods, companies are always looking for cheap and safe meanings of transporting tons of goods. Therefore, seaports provide the best option for transport of goods through sea routes. Most of the major industries are therefore located on coastal belts for attainment of this advantage. Ports are the primary component of transportation sector of the world economy.

Gwadar port is very significant for the development of Pakistan. This will reopen the chance of Pakistan to be involved in international markets. Xinjiang in China lies 4,500 km from China's eastern coast of China, where Gwadar will reduce the distance between Xinjiang and

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<sup>1</sup> Early harvest projects of Gwadar, Ph II (Expansion of Gwadar port, East Bay Express, Digitization of land record, waste management and flood protection and storm water drainage).



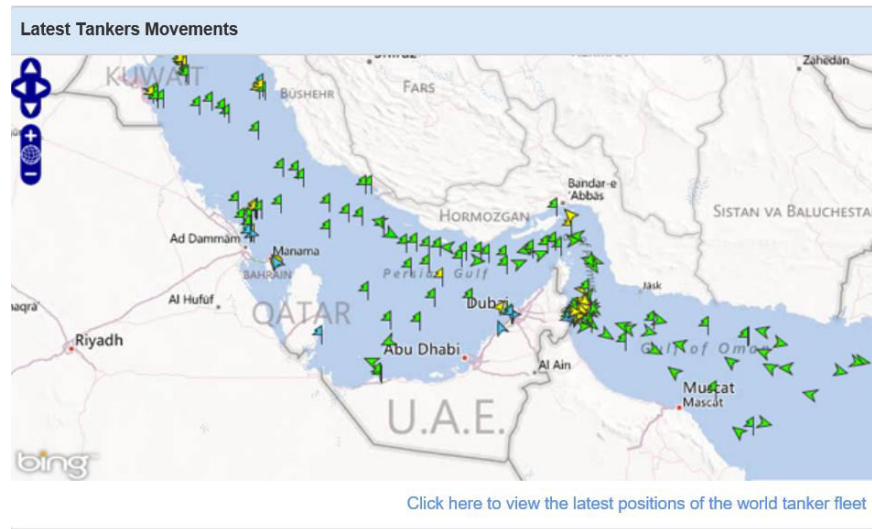
seaport by 2,500 km (Haider: 2010). The location of Gwadar deep sea port is accessible all around the year, providing reliable communication and trade linkage from and to around the world. Gwadar Port City will become an ideal place for business for landlocked Central Asian states. A transit corridor from Central Asian states through Afghanistan will cost less than US\$6 Billion (Boyer: 2006). Gwadar port is also significant in the development of Baluchistan, as Special Economic Zones will be developed to enhance the public benefits.

It will also be a source to development of road and railway networks in Pakistan in general and in Baluchistan in special. Mineral rich Baluchistan can be unearthed to its full potential. Furthermore, the rest of the three provinces of Pakistan, Punjab, Khyber Pakhtunkhwa and Sindh will also have similar benefits. The ultimate goal of this project will bring development and employment in Pakistan by increasing connectivity through infrastructure.

The most important factor that makes Gwadar's strategic location as a key to development of Pakistan is its location in the middle of the earth. It is located just 624 nautical miles (1,155 kilometers) from the Strait of Hormuz, from where a third of world's oil supply passes (Alamgeer: 2011). Gwadar port is located 533km west of Karachi and 120 km from Iranian border (Gwadar Development Authority: 2015). The Port has great strategic value as it is expected to allow the trade routes to and from 20 countries from Middle East and Central Asian region along with China (Gwadar Development Authority: 2015).

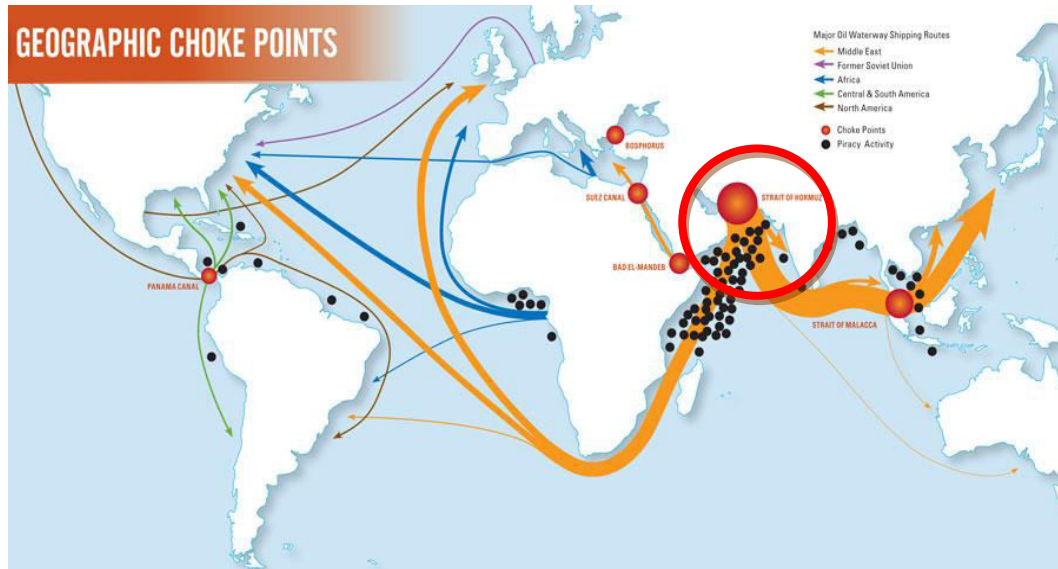
### **Strait of Hormuz and the Importance of Gwadar**

The Strait of Hormuz is called as World's most important chokepoint. The amount of oil flow is around 17 million barrels per day which makes about 30% of oil trade around the world (US Energy Department: 2014). The US Energy Information Administration (EIA), defines the world oil choke points as narrow channels widely used for global sea routes trade. Choke points make the critical part of global energy security, as high volume of oil and gas trade is conducted through them. Blocking a choke point temporarily can lead to substantial increase in total energy cost and the prices of oil and gas. According to the data of about 85% of the oil and goods that pass through the Strait of Hormuz goes to the Asian Market (Tanker: 2016). The destination common for the transport of oil through the Strait of Hormuz are Japan, South Korea, and China.

**Figure 1**

Source: Lloyd's List Intelligence. *Tanker*. 2016. [URL:http://www.lloydslistintelligence.com/lint/tankers/index.htm](http://www.lloydslistintelligence.com/lint/tankers/index.htm).

According to British Petroleum (BP) Statistical Review of World Energy 2014, Qatar exported about 3.7 trillion cubic feet (Tcf) of LNG through the Strait of Hormuz in 2013. Kuwait imports LNG, that travel northwards through Strait of Hormuz. Saudi Arabia and United Arab Emirates (UAE) are the only two countries in the most important choke point of the world to transport crude oil outside of the Persian Gulf and Gulf of Oman. The operational pipelines are also under the control of these two countries. However, the total available unused pipeline capacity in these states combines to be approximately 4.3 million barrels per day (US Energy Information Agency: 2015). As for the future of Gwadar, the Pakistani Government supports the construction of pipelines running from the Persian Gulf into Pakistan and onward

**Figure 2**

Source: "Regarding Gwadar Port?" <http://defence.pk/threads/regarding-gwadar-port.375846/page-3>

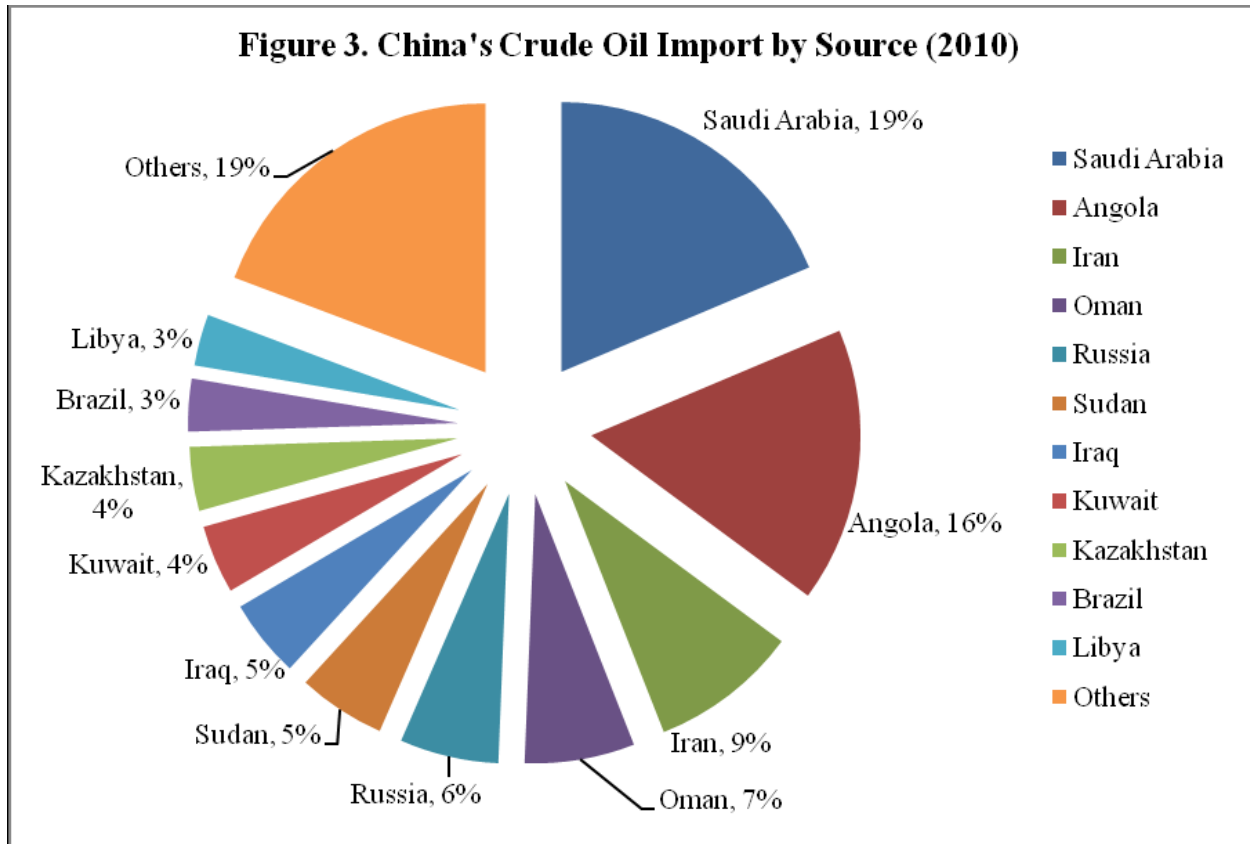
### Energy Politics in the Region

As China is developing its new Special Economic Zone in Xingjian, it needs new routes to transport energy into this region. China has solidified its relations with Central Asia through massive investments in energy imports from Kazakhstan and Turkmenistan. China aims at securing the diversification of energy supply and transportation routes. Two major hurdles Chinese strategic planners are facing are the instability in Xinjiang and international involvement in the region especially in the wake of war on terrorism (Marketos: 2008). China is moving fast to eliminate such disputes through dialogue to ensure its energy security.

In the recent years as the importance of energy is growing the race between big powers for the acquisition of major oil and gas reserves in the world has also increased. China has provided loans to the countries that needed oil exploration infrastructure and logistics, at an exchange of oil and gas import at established prices. In Middle East and Africa, China has extended these oil deals to Sudan, Nigeria, Angola, Congo, Iran, Oman and Yemen besides imports from Russia and Central Asia. According to following figure, by 2010 Chinese oil imports from the Middle East, Russia and Central Asia and Africa accounted to between 44%, 10% and 19% respectively (Jaffe and Lewis: 2007).



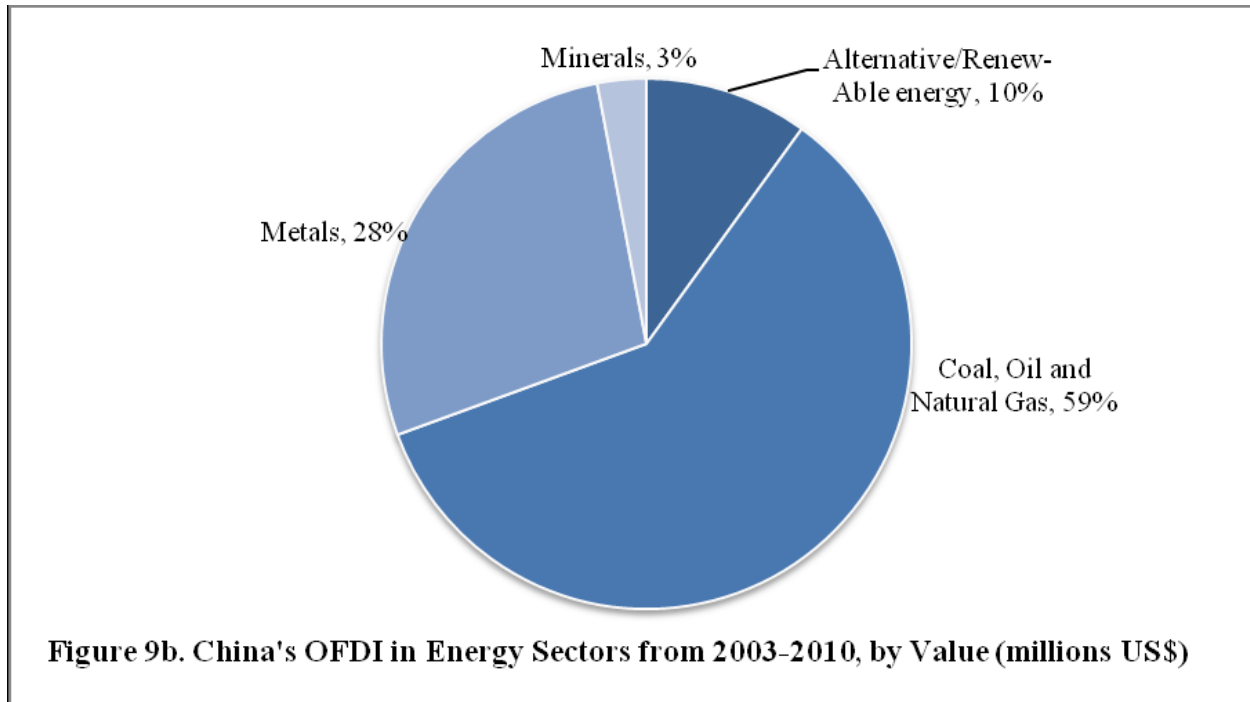
Figure 3



Source: "China Energy Data, Statistics, and Analysis: Oil, Gas, Electricity, Coal," U.S. Energy Information Agency, last updated May 2011, <http://www.eia.gov/cabs/china/Full.html>; accessed 13<sup>th</sup> July, 2016.

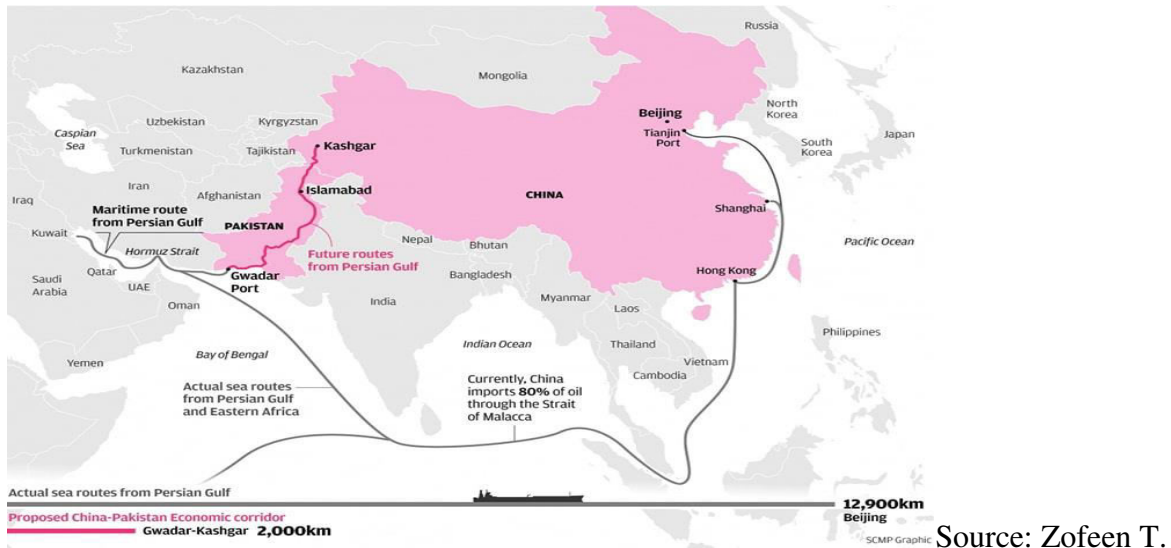
Chinese outward foreign direct investment (OFDI) in oil sector has also increased manifold due to 'go out' policy. It is thus easily recognizable that China has acute and enormous oil demands, which are expected to further grow despite the slowdown of economic growth rate.

**Figure 4**



Source: Financial Times FDI Intelligence.

In longer run, China will require new routes and ways to transport this oil. China is importing 80% of imports through Strait of Malacca. The distance from Persian Gulf to the Chinese port in Beijing is 12,900 km. whereas, the development of Gwadar port will reduce the distance of Chinese oil and good imports to only 2000 km.

**Figure 5**

Ebrahim, "China's new silk road: What's in it for Pakistan?" *Dawn*, 2015.

URL:<http://www.dawn.com/news/1177116>,

Pakistan being the energy starved country at the moment is in desperate need to import it from alternative sources. Central Asian Republics (CARs) provide an opportunity to Islamabad to import energy especially natural gas from Turkmenistan and electricity from Tajikistan and Kyrgyzstan. Since Central Asia is a landlocked region and is also looking for alternative energy transportation routes in order to reduce dependence on Russia, Gwadar port can provide them with best available options. One such project is the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. This pipeline will allow Turkmenistan to export 33 billion cubic meter gas per year to Pakistan and India (Jaffe and Lewis: 2007). The estimated cost of this project is \$7.6-10 billion (Amy Myers Jaffe and Steven W Lewis: 2007). However, the security issues in Afghanistan and the unwillingness of India to depend on Pakistan has halted the project.

The gas pipeline if developed will not only benefit Turkmenistan-Afghanistan and Pakistan, but also the new importers of the gas. TAPI reaches Multan, in Pakistan, from where the natural gas can be transported to Gwadar port where it can be exported throughout the world through vessels and ultra large ships. The pipeline project is not only important to export the natural gas and crude oil to South Asia, but it will also ensure energy security in volatile parts of South Asia. This project will be an attempt to foster peaceful relations among the countries of the



region (Tanrisever: 2013). Energy policies of President Gurbanguly Berdemukhammadov of Turkmenistan also play a significant role in ending the isolation of the country after the death of President Supramurad Niazov in 2005. Turkmenistan is already one of the top five countries to have natural gas reserves in the world.

With only one LNG terminal operational at Bin Qasim port in Karachi, the economy of Pakistan heavily relies on the domestic gas production (Mammadov: 2015). The government of Pakistan says that the country already needs additional 20 billion cubic meter (bcm) gas per year, and by 2023, the demand will increase by 40 bcm/year. TAPI project is the future real and effective stabilizing energy and economic project. This will have long term positive impact on the stability of not only Pakistan and Turkmenistan, but the whole region. This pipeline will have domino effect to establish further pipelines in the future that can meet the energy demands of the ever growing population of South Asia.

With this energy diversification will be introduced to be effective energy strategy. This will also create energy deposits for export purposes. The oil and gas reserves are mainly in Turkmenistan, Kazakhstan and Uzbekistan. These countries need shortest and safe all-weather routes. Gwadar port due to its shortest cost effective route to and from the Central Asian states, provide the best means. The establishment of oil storage and oil refineries facilities adjacent to the Gwadar port will provide excellent export opportunities, for the investors to export the oil to their home destination.

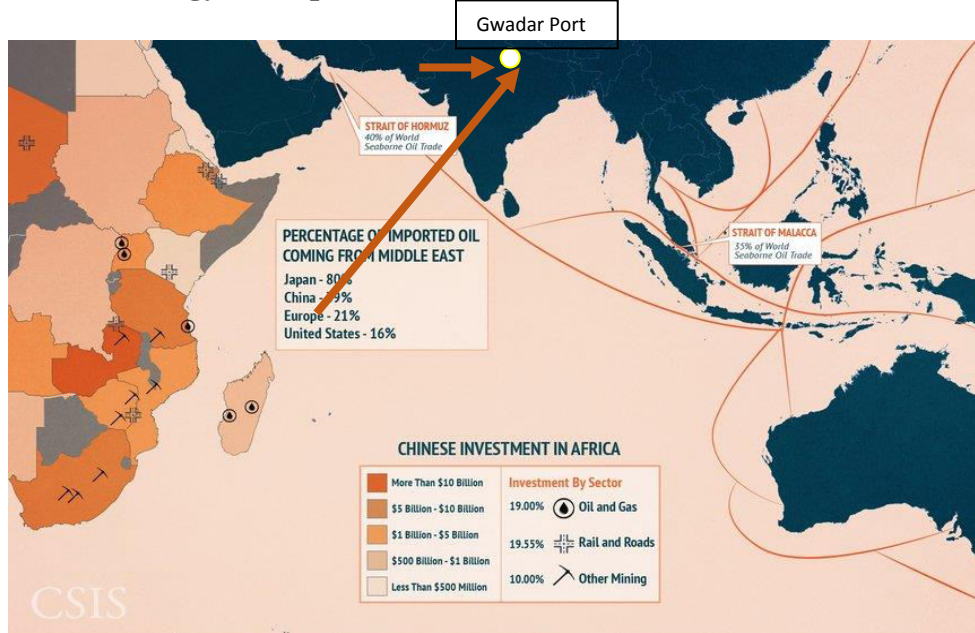
### **Chinese Maritime Sea Route and Importance of Gwadar**

All these years China has been using the route of Persian Gulf and the route of Strait of Malacca for the import of the Middle Eastern and African oil. Straits of Malacca is strategically important location for China. It is the location from where 80% of the oil is brought into the territories of China (Kaplan: 2016). Straits of Malacca is followed by South China Sea, where dispute between the bordering nations is growing over the issues of national sovereignty in the region (Kaplan: 2016). The region has gained a lot of internal attention, leading to involvement of US. Therefore, concerning the security of the region, Straits of Malacca is becoming an insecure route for Chinese oil. The energy politics in the region is growing as well, as there have

been claims of oil reserves in the region. This leaves home of more than two hundred small island a critical geostrategic location (Kaplan: 2016).

**Figure 6**

**Chinese Energy Transportation Route(s) from Africa and the Middle East**



Source: Robert D. Kaplan, *op. cit.*,

As shown in the image above, China has huge number of investments in the energy sector of Africa. Gwadar can provide China with the best option to avoid Straits of Malacca. This will thus serve to be an easy, safe and quick alternative route to provide the energy import for the western regions of china. In addition, China is also looking forward to building a trans-Himalayan pipeline through Gwadar port. This gas pipeline will pass from Gwadar connecting South Asia to China and Central Asia (Jetly: 2009). The rail and road links are always being laid down, which will connect China and Pakistan from the Karakoram highway in Pakistan’s northern border areas to the Chinese border province of Xingjian (Jetly: 2009).

**Gwadar and Neighboring Ports**

The commercial importance of Gwadar port largely depends on its quality of being a deep sea port. Neighboring ports in competition, such as Dubai World Port and Chabahar Port, lack this quality. The major factor that makes the project fit for near future development and



investment programs is the fast track construction of roads, infrastructure, public buildings and the city development plan by Gwadar Development Authority (GDA). The port is full scale commercial port, developing to its full potential. Gwadar port will provide the facilities of transshipment, transit, costal trade, provisions of industrial and commercial opportunities, and warehouse. These facilities will allow cheaper and simpler route to Central Asian States and China. Regional trade will thus be benefitted, if Gwadar port is trusted to make a trading hub.

The distance between the Iranian Chabahar port and the Pakistan Gwadar port is only 72 kilometers (Afzal: 2015). Gwadar enhances the significance of Pakistan in international trade conducted in the whole region, whereas Iran and India finalized the deal of Chabahar port of 20<sup>th</sup>, May, 2015 for promoting trade (Afzal: 2015). Pakistan and China have land connections through borders, in order to carry out bilateral trade, whereas India and Iran do not have any land connections therefore, in order to conduct trade activities, both the countries will have to use the sea routes. In 2003, both Iran and India carried out the plan for the development of Chabahar Port, however due to US sanctions on Iranian Nuclear program, the development process slowed down.

Chabahar and Gwadar port being developed by India and China respectively has brought regional rivalries. India is concerned to dominate the Iranian crude oil reserves of 157,530 million barrels and 34,020 billion cubic meters of proven natural gas reserves (OPEC: 2016). Whereas, the Chinese companies are interested to import Middle Eastern oil and gas, which according to statistical Review of the World Energy, is storing 66% of energy reserves of the OPEC total (OPEC: 2016).

The current bilateral trade between India and Iran is about \$14 billion (BBC NEWS: 2015). Bandar Abbas port can alone handle this much operation. Whereas the bilateral trade between China and Dubai is \$495 billion (The Gulf Times: 2015). This trade is expected to grow. Therefore, Gwadar will serve to be a port more operational which will ultimately benefit Pakistan's economy. The trade however heavily depends on better infrastructure of Gwadar port.

### **Oil tankers sizes that could dock at Gwadar Port:**

Large ports particularly offer attractive docking locations for industries and distribution intensive enterprises, for example Beijing and Dubai seaports. As part of Port Development

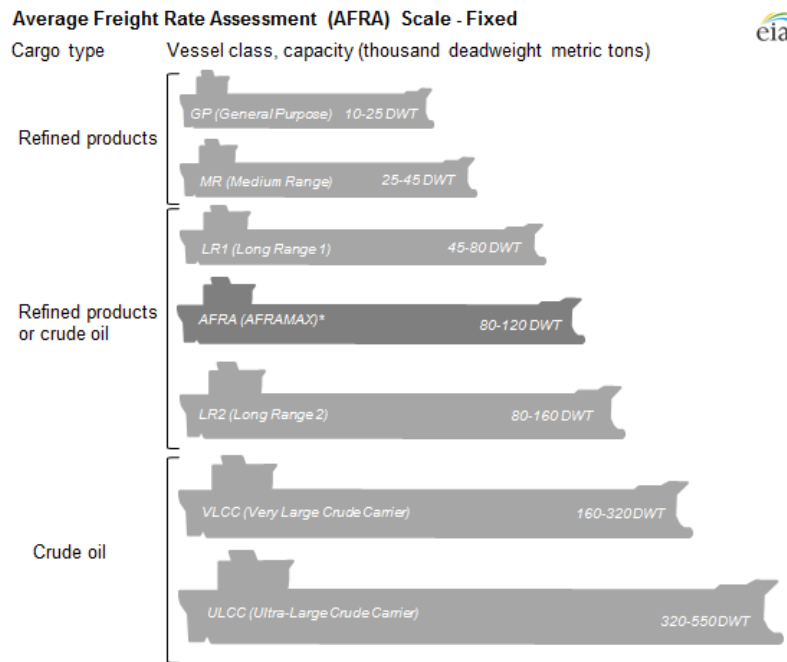


policies, many ports encourage the co-development of various value-added services through franchising, licensing and incentive leasing. Today, ports that excel as the hub ports have the facilities' of chandelling, ship repair, container maintenance; insurance claims inspections marine appraisals and banking. When larger ships dock at the port, more facilities are needed to carter all the needs of these ships. One of the most important features of Gwadar port is its ability to dock almost all types of shipping containers and vessels.

Ships that carry crude oil and petroleum products are allowed to enter a strait, channel or port region based on its size. A scale known as Average Freight Rate Assessment (AFRA) system was established by Royal Dutch Shell, which is overseen by The London Tanker Brokers' Panel (Porter: 2016). The smaller vessels are the General Purpose (GP) and the Medium Range (MR) vessels are commonly used for to transfer cargo of refinery products for shorter distances such as from Dubai World Port to Gwadar Port. The small size of these vessels allows them to move along the straits and channels, to access most of the ports of strait of Hurmuz and gulf region. These vessels can carry between 70,000 barrels and 190,000 barrels of motor gasoline and MR can carry up to 190,000 barrels to 345,000 barrels (US Energy Information Administration: 2014). These ships will come from various parts of the world to drop off goods or to take back home goods to home country.

**Figure 7**

**Average Freight Rate Assessment Scale-Fixed**



Source: U.S Energy Information Administration: 2014

The Long Range (LR) class ships can carry both the crude oil and refined oil products. These are the most common types of vessels used in global tanker fleet. These ships can access the large ports around the world. The amount of barrels of gasoline they can carry is between 345,000 barrels and 615,000 barrels (US Energy Information Administration: 2014). Most of the global oil tankers are classified as AFRAMAX.<sup>2</sup> These ships are popular for the shipment of logistical products by the oil and mining companies. Various ships are also built to classify among these ships. These ships can transport between 80,000-deadweight tons and 120,000 deadweight tons (US Energy Information Administration: 2014).

Over the history the types of vessels are growing, the new types of vessels are Very Large Crude Carrier (VLCC) and Ultra-Large Crude Carriers (ULCC). These vessels are set for the transport of crude oil around the globe, including the North Sea. They have the ability to carry 1.9 million and 2.2 million barrels of West Texas Intermediate (WTI) type crude oil (US Energy Information Administration: 2014). With the development of Gwadar port and its quality

<sup>2</sup> Note: AFRAMAX is not the official vessel classification on the AFRA scale but is shown here for the companies.



of depth at the port these mega size oil containers will be able to dock at Gwadar Port. The depth of oil terminal is 11-12.2 meters (Seaports: 2014).

### **World's busiest ports and their impact on indigenous economy**

Following are the ten busiest container ports in the world with the volume of Million TEU.

**Table 1**

Ranks	Ports, Country	Volume 2013 (Million TEU)
1	Shanghai, China	33
2	Singapore	32
3	Shenzhen, China	23
4	Hong Kong, China	22
5	Busan, South Korea	17
6	Ningbo-Zhoushan, China	17
7	Qingdao, China	15
8	Guangzhou Harbor, China	15
9	Jebel Ali, Dubai, UAE	13
10	Tianjin, China	13

**Source:** World Shipping Council, "Top 50 Container Ports", About the Industry, 2016

URL:<http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports>

The above-mentioned ports are the world's busiest ports based on the ranking of both cargo and container traffic. This ranking is designed by the American Association of Port Authorities as "World Port Ranking" to chart out the hundred busiest ports of the world in order to find out the active container ports. Since Pakistan aims at developing a deep sea port at Gwadar, it can use the successful models of port development. These models are already experimented. Pakistan needs to take up such models which have produced positive result for the country. As Pakistan is yet a developing economy, it cannot work efficiently in its early stage of port development activity. Therefore, if such practiced reforms are applied to the developing economy of Pakistan. It can ace its goal of country wide development, just by active deep sea port.



The maritime sector is a composition of wide range of services on the port. The primary service that a port provides is transportation of goods and services. Among other services are towing and tug assistance, emergency repairs, anchorage berth and berthing services, which are located on the port. Supporting or auxiliary services such as, storage and warehouses, maritime cargo handling services, customer clearance services are also inevitable for such services. With the development of Gwadar port, these facilities will be made within the port area (US Energy Information Administration: 2014). This will drive various private firms to develop their offices nearby to support the port activity. The auxiliary services will however be located at a distance in order to have large storage space on the outskirts of Gwadar, nevertheless near the port. This will bring in a lot of private and public firms to employ people from various sectors of services.

Shanghai Free Trade Zone, developed by China was a test of its reforms towards opening up policy. These are unilateral set of measures by the government of China to promise liberalization on capital accounts and free trade facilitation (Yao and Whaley: 2015). China has accomplished major economic development in the new millennium with the help of ports and special economic zones. According to the World Bank when China joined WTO in 2001, its GDP was \$1 trillion, where in 2014; its GDP is raised to \$10 trillion at market prices (World Bank: 2014). The rising rate of development in China is an outcome of efficiently working Free Trade Zones.

The macroeconomics performance of China in the past decade reflects high domestic investment, high dependence on foreign market and low consumption ratio. The annual growth rate of China's gross capital formation had been two digits, since 2001, which peaked in 2009 to 19%, while the rest of the economies struggled in aftermath of financial crisis of 2008, with their gross capital formation decreased by 10% in 2009 (Yao and Whaley: 2015). With the investment by China and hard work by the Gwadar Development Authority, Pakistan will also be able to produce such output.

### **When Gwadar is developed**

The inland transportation system will allow for the timely and efficient overland transfer and transportation of cargo. Gwadar port has sufficient landside connectivity for its liner vessels to maintain their schedules. In 21<sup>st</sup> century, the supply chains do work effectively by port-to port

connectivity of liner vessels, instead the international supply chains are highly dependent on the efficiency of inland dispersal of international cargo that reaches a port of a country by sea trade route. Good quantity of truck and container business will be promoted as the cargo will be moved from origin to destination by the means of road or rail.

Rail and roads, makes the transport and logistical sector of Gwadar port an effective mean of trade and communication. They will be very important, as it will determine the efficiency of connectivity. The physical portion of T&L (Trade and Logistics) consists of rails, road transport, sea trade route, freight and air transport, whereas soft infrastructure covers packing, delivery, storage and related trade logistical services (Government of Pakistan: 2015). If taken these services only, it requires a good number of staff and managers to carry out timely activity. Only T&L will contribute towards 10% to the GDP (Government of Pakistan: 2015).

Vision 2025 is set to raise the road density to a level of 0.46 kilometers per square kilometers by 2018, which will increase the existing national road network from 2,60,000 KMs to 3,58,000 KMs (Government of Pakistan: 2015). The railway industry will be upgraded as well, where the speed of railway system will increase from 95 km per hours to 120 km per hour. The railways tracks shall also be doubled, increasing the line capacity. The railway system will be equipped with modern signaling system. These railway and road networks will further be interconnected within the country the country and also with the neighboring countries. East-West Corridor and North-South corridors shall establish to develop linkages to Central Asian states, China and nearby countries. The income freight on the Gwadar port from origin will reach to its destination by a separate freight corridor on the railway tracks (Government of Pakistan: 2015). Gwadar port in that case will act only as a cargo node between origin and destination of goods.

The vision emphasizes high participation by private sector, which will allow the people of Pakistan to take part in the business activity thus establishing new kinds of job opportunities for the people, which did not exist in Pakistan before the development of Gwadar port. The participation of private sector as growth-driver will enhance the efficiency, entrepreneurship, productivity and competitiveness in the economic atmosphere of Pakistan, thus contributing positively in the progress and development of Pakistan.

In Pakistan, 96% of all passengers and freight traffic moves through the road (Government of Pakistan: 2015). Thus, railway has minimal role in the conduct of economy, which will need good attention for the development of logistical service. The initiative of the CPEC (China Pakistan Economic Corridor), will develop to connect Gwadar port to Khunjab in the North of Pakistan, among which there will be linkages to further east and west to developing economies, to mutually benefit from the trade zone in order to improve to living standards of common people and eliminate the barriers of trade, in order to make the region a prosperous and peaceful one.

Economic benefits of Gwadar Port are associated with well function of the port. It will decrease the cost of trade; it will add value and attraction to various economic sectors in Pakistan, China, Central Asia and South Asia as whole. When the port efficiency of Gwadar port will increase, it will invest in bilateral trade between the ports in the Persian Gulf and the Gulf of Oman region. Chabahar and Gwadar Port can complement each other for having a closer location. On average one tone throughput will add US\$100 to the economic value and increase of one million tons of port throughput is associated with an increase of over 300 jobs in short term. (Olaf Mark: 2016). The growth of a port is depending on various factors; such as population of port city, GDP per capita, containerization rate of cargo traffic and connections with hinter land (Government of Pakistan: 2015). Development of Gwadar Port will have spillover effects to nearby regions and related economic sectors. Firms in other parts of the country will also benefit from the import export business, as they will have a gateway to the world in Gwadar Port.

Gwadar port city is a short-range corridor, where a metropolis port city of Gwadar is located in proximity of the large Gwadar Port. As the city is located not more than 200km away from the port, transshipment hub will be close to intercontinental trade routes. It will allow the out-going goods set to sail or the incoming goods set onto trade routes right on the schedule, thus creating Gwadar port a time efficient port. The development prospects in Gwadar will attract people in large number in order to settle in the area, which will lead to substantial increase in the population of Gwadar (Government of Pakistan: 2015). As the port will become operational, the average annual GDP of 1% growth will be associated with average container port growth of about 3% (McKinsey: 2011). Therefore, GDP per capita income of the population will observe growth volume. Finally, the connectivity of Gwadar port with highly developed CPEC will be a

source of its connection with hinterlands of China and Central Asia. In 2009, more than half of the port activity of the world took place in Asia. Ports in Asia, particularly the ports developed by China has shown very fast growth rate over the last four decades (Olaf Mark: 2016).

The maritime costs of traded goods determine substantial value of the traded goods. The table below demonstrates that maritime transport cost of the percentage of the imported value.

**Table 2**

<b>Goods</b>	<b>Maritime transport cost as % of import value</b>	<b>Maritime transportation cost (US\$ per ton)</b>
<b>Crude oil</b>	4%	\$ 8
<b>Manufactured goods</b>	5%	\$ 174
<b>Agricultural products</b>	11%	\$ 81
<b>Raw materials</b>	24%	\$ 33

**Source:** J. Korinek, “ *Clarifying trade costs in maritime transport*”, Paris: OECD Publishing, 2008.

The imports from Pakistan will be based on the above-mentioned subjects, which will enhance trade activities of these sectors. The cost of transport also depends on origin and destination of products. Higher maritime cost is experienced in the region where the trade volume is lower. As Gwadar port is a free trading hub, 80% of the trade of hinterland will be conducted from this route, which will therefore increase the trade volume and decrease the trading cost (Olaf Mark: 2016). Studies have indicated that 10% increase of bilateral trade can reduce the maritime cost of 8% approximately (Olaf Mark: 2016). Pakistan is on a very blessed strategic location with the landlocked countries. With the development of Gwadar port, Central Asia will have a gateway to the world and cheapest mean to conduct trade with the world, which will not only raise the GDP per capita of their country but also the whole region. Gwadar port is a great opportunity for them to engage in world trade activities and bring prosperity in their countries.

### **People of Baluchistan**

The people of Baluchistan are highly concerned that increasing port activity will eliminate them out of the port benefits. However, no port has yet been developed without the help of local people or without involving locals. Port industry requires major input of local



population. This industry will bring in over thousands of jobs. As the Gwadar port will be newly developed, labor will be needed to make various sectors such as containerization, automation, cargo handling and managing and related port operations will require labor force. As the port will become large and larger more job opportunities will be created in order to carry out port activities efficiently. A meta-study of 150 ports indicated that on an average, one million ton of port throughput leads to creation of 800 new jobs. These jobs are directly or indirectly related to port activity (McKinsey: 2011). Gwadar port will not only attract goods but tourist and business as well, which will create more job opportunities for the locals and international investors in terms of hospitality.

Port attached industry, in Gwadar city can be immensely large as good number of national and foreign investors will set up their industries. With this on average 10% of employment will be added annually to each sector. Various talents and skills will be open up employment opportunities in the port city as not all the industries set up in Gwadar will be related to port activity. Hence diversity of talents will be employed in Gwadar City. This will cluster diverse type of professionals in Gwadar city, making it a hub of opportunities for the youth of Pakistan. With this port, education and training will be a necessary requirement of efficient working of Gwadar Port.

Moreover, the province of Baluchistan is blessed with various types of mineral deposits and natural resources. If these minerals are, explored Pakistan can become self-dependent, and out of the net of debts. According the experts, if only two mega projects in Saindak and Reko Diq are combined together can have more production as compared to Iran and Saudi Arab combined. Estimated worth of gold and copper in the region is \$125 Billion US dollars, 41 million ounces and 54 billion tons respectively (Ahmad: 2015). The Reko Diq Mining project is of \$ 3.3 billion US dollars. This project aims at building world class copper and gold exploring open pit mine at Reko Diq, in the district of Chagai of Baluchistan, a province in Pakistan. The initial mining plan envisions, processing 110,000 tons of ore per day, by the flotation process. This product will then pass through 680 km concentrated pipeline that will transport the product from the mining site to the respective marine terminal facility at the storage and transfer of shipping vessels, that supply semesters throughout the world (McKinsey: 2011). However, in order to secure optimal scale of efficiencies with low cost mining and processing units, a large



scale mining and processing project required. The proposed processing plant will produce approximately 600,000 tons of copper a year, which will contain 7-22g/ton gold and 28-31% copper (Ahmad: 2015). This will make 200,000 tons of copper and 250,000 ounces of gold per year (Tethyan Copper Company). The expenses of the mine are estimated to be US\$ 400 million, out of which 45%-50% will be spent within Pakistan (Ahmad: 2015).

With a lot of potential for the development of mining industry of Pakistan, Chinese government seeks to consolidate its mining industry, in order to eliminate obsolete and inefficient capacity of mining sector. Efficiency plans of Chinese mining companies also indicate the environmental concerns. They have closed down the small and obsolete mines around Beijing for health and environment concerns. Mining industries are generally seeking technology efficient ways to reduce pollution.

Gu Zangqin, Head of the China National Petroleum and Chemical Planning Institute, argues that “China’s plan to move to more urbanization, growth of middle class, and industrialization, will surely increase the demand for raw material and consumer products in long run.” The sustainability of raw materials used in supply china is a bigger concern for China.

In a recent *Investor Intel* article, Jack Lifton concluded that restructuring of raw material industries is already taking place in China, that consolidations are likely to occur in 13<sup>th</sup> Five Year Plan. Lifton also reported that China consumed 60% of all type of metals in the world, and 80% consumption of world supply of high-tech metals such as rare earth elements. China aims at pushing the manufacture of more high value technologies, and also the technologies that are required to make the high value technologies. This consumption driven model, however still need effective supply of raw material. According to Jack Lifton “underpin the growth of the high-tech manufacturing economy so that Chinese domestic consumption can grow” (Lifton: 2014). Therefore, in order to ensure the consolidation of emerging phase of economic growth, China will depend on raw material for industries, such as copper concentration and iron ore. Chinese firms are obliged to discover ores in China and Pakistan.

Therefore, it is in the regional and international interest of Pakistan and China to continue mineral exploration, develop Gwadar Port city and flourish it for the betterment of the region and its generations. South Asia has seen tremendous grief in terms of poverty, war and threats, but



now is the time to overcome all that was holding the region from developing and being an economic hub. This region has a lot of potential as stated by Peter the great, who died fifty-one years prior to the birth of United States, "... approach as near as possible to Constantinople and India. Whoever governs there will be the true sovereign of the world. Consequently, excite continual wars, not only in Turkey, but in Persia And, in the decadence of Persia, Penetrate as far as the Persian Gulf advance as far as India."(Global Security: 2016). (In today's world, "India" ought to be read as "Pakistan")

### **Conclusion**

The Gwadar port has a bright future and when it is operational, it may emerge as a major economic hub in the region. From Gwadar to Kashgar in China, it will bring economic revolution in the region. The local people will also benefit from the port, as there are countless welfare plans including health and education projects. The fishing industry will also be promoted. The Chinese role has increased by taking over direct management control of the port from Singapore in 2003. China is taking keen interest in completing the infrastructure projects and allied facilities, as it is in the economic and strategic interest of China. Chinese are investing more than \$46 billion in the Development of Economic Corridor between Pakistan and China, which is a huge bilateral investment. China is ready to take advantage of this economic favorable environment, and help the region develop peacefully.

This is an opportunity which Pakistan cannot afford to miss and we are likely to see more strategic and economic cooperation for mutual interest that promises development and prosperity in Pakistan and the region. Central Asian states are likely to act in the economic interest of Pakistan. Pakistan is also gearing up to protect the ongoing project and have made exclusive security arrangements to meet the challenges terrorism and foreign involvement to hinder the development of the project. The multifaceted interest of the opposing forces are joining hand to jeopardize this project, but is well aware of these and will not allow them negatively integrate in the project. After the completion of the project, there will be a new era economic revival, not only in Pakistan but greater regional economic integration will be provided to the regional countries as well.





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