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## ***Is Gwadar Port an Economic Haven for Balochistan and Pakistan?***

Tousif Ali Yousaf

[tousif.yousaf.249@student.lu.se](mailto:tousif.yousaf.249@student.lu.se)

**Abstract:** Gwadar port is a deep-sea port that lies at the southwestern coast of the Balochistan province. Since 2002, it has been given quite some attention; the government realized its potential of becoming a major hub port of the region, given its proximity to the Strait of Hormuz, a sea passage through which a fifth of the world's oil transit occurs. MOUs have been signed and commitments made in excess of a billion U.S. dollars for projects at the port, including economic and industrial zones, an international airport, railway and road networks, and civic centers, among others. A few other multibillionaire projects in the province have been announced in connection with the port. Gwadar is Balochistan's biggest and the province's first international project at this scale.

However, Gwadar is subject to mixed implications; whereas several development initiatives have gone underway to exploit the port's potential, there have been numerous conflicts, obstacles and delays and a serious lack of attention paid towards the port.

China's focus has been at the center of the development of Gwadar. With global trade growing, as well as China and Pakistan's international and bilateral trade soaring<sup>1</sup>, Gwadar would be one more doorway for these two countries and the rest of the world. It could also be enrolled in China's vast communication network – the String of Pearls.

*Key words:* gwadar, port, china, foreign direct investment

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<sup>1</sup> As highlighted by (APP 2011)

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### 3. INTRODUCTION

Trade has always been one of the primary pillars of remuneration since prehistoric times. Since the beginning of communication, man felt the need to establish balance to the coexistence of individuals in a society, and exchange of goods and services began, one for another.

Trading, or “Barter” of goods and services, as it is referred to for olden times, laid the foundation of the modern economic ecosystems and currencies and other legal tenders as we now know them. Peter Watson, in his book on history, hints to the existence of long-distance trade from circa 150,000 years ago (Watson 2006).

Like a chain that is as strong as its links, trade is as sound as the medium and methods used. Naturally, these are mainly land, sea and air transport. One could argue that electronic, digital, and, for that matter, electromagnetic waves are other media. Nonetheless, they are subgenre of the land (landlines, hard-wiring, cabling, networking), air (wireless, radio waves etc.) or sea (international fiber-optic lines) media.

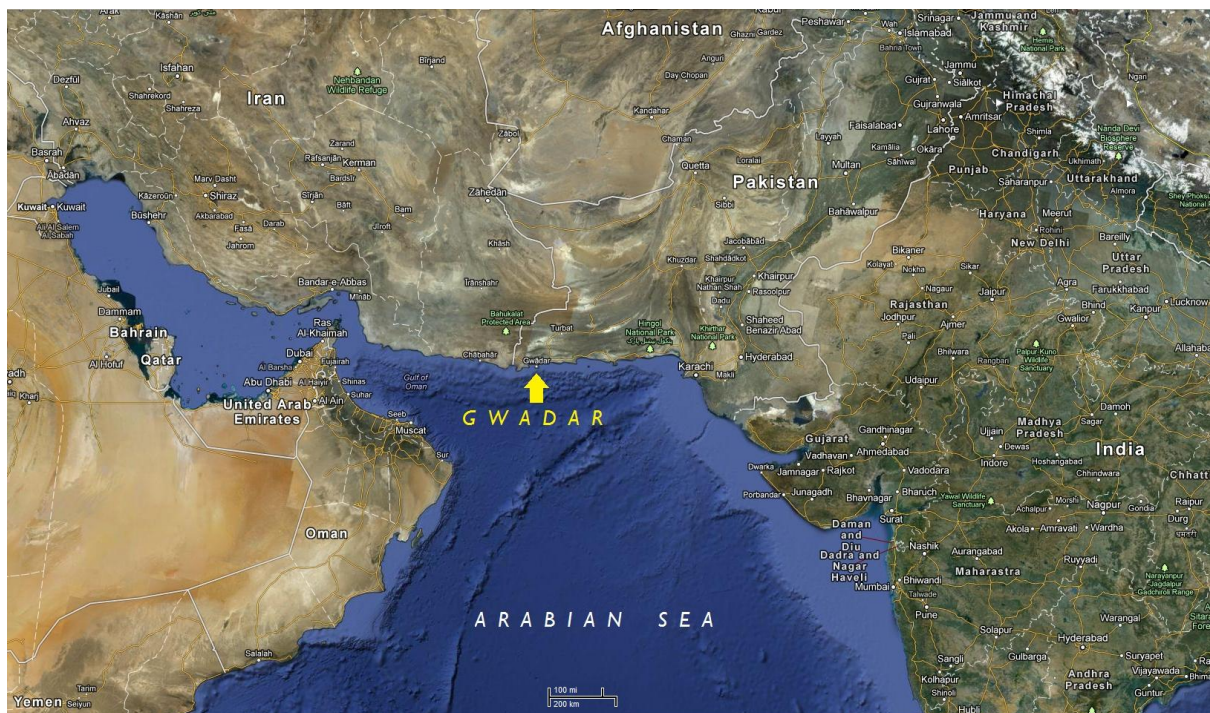


Figure I: Gwadar’s Location – Global Map<sup>2</sup>  
Source: Google Maps

<sup>2</sup> Figure obtained from <http://maps.google.com/>.

Sea trade commenced when societies felt the need to travel beyond the boundaries of dry land, and to discover new avenues and greener pastures. Naturally, establishments near coasts gave birth to modern-day ports. The seas are one of primary ways to connect to continents otherwise not connected by land. Sea routes can be linked with land routes for the drier parts of the region to shorten distances and save time and costs. An example, in our very case is China, which would have rather easier access to the Central Asian states as well as the Persian Gulf through Pakistan's ports.

Economic integration has continuously been addressed in recent years. In the last century, the world has shrunk ever close, thanks to the globalization phenomena, which has aimed to shorten distances and obstacles and fused the world in as compact and tightly integrated universe as possible. Such movement has given birth to the likes of Free Trade and the WTO.

For the last few years, such integration has also been sparking in this region of Asia. In this very document, particular consideration has been placed on the integration of China, Central Asia and the Middle East, including Iran, Afghanistan and Pakistan.



## 4. OBJECTIVE OF THIS PAPER

### 4.1. Background

Balochistan is the largest province of Pakistan with respect to occupied area, spanning over 347,000 square kilometers, almost 44% land of the country. Sui, which accounts to a quarter of the total natural gas production, is also in Balochistan. Balochistan is also home to copious natural resources, the province with the most abundant amounts of them in the country.

Unfortunately, Balochistan is also the most overlooked and compromised province, and it has always been a cry of the Baloch people; they have complained of Pakistan's unjust exploitation of the province's resources, citing several times that they are not paid their proper due of their contribution. This has historically raised several issues and conflicts in the area, to extents of even military operations against influential tribal leaders like Akbar Bugti, one of the most famous ones, who was killed by the military's hand.

There have hardly been instances of development in the province, and it has been decades since a project as huge as Gwadar appeared on the map.

### 4.2. Research Question

Much has been said and written about the development of a deep seaport at Gwadar. The latest pronouncement in this regard has come from then-Chief Executive, General Pervez Musharraf, who remarked that he "failed to understand why such an important project had not been implemented so far" (Hashmi 1999).

Has Gwadar realizing its true potential? Did the project that commenced in 2002 as the country's most international project in years get its due? Has Gwadar achieved the expected results? These questions integrate into one more comprehensive question:

***"Is Gwadar an Economic Haven for Balochistan and Pakistan?"***

The objective of this paper is to address the above statement, and in doing so, the paper will ponder upon all the planned developments and economic expectations, their eventual execution, and the reasons for success (or failure) of the economic viability of the port project. Gwadar's realization is an important turning point for the economy of Balochistan in particular, and Pakistan in general. This paper will analyze how far the economic benefits of Gwadar have been obtained, and where efforts and policy-making are lacking, if any. As a result, the paper would make important recommendations to optimize the economic interests in Gwadar.

## 5. GWADAR

### 5.1. Gwadar: A Few Insights

Gwadar is a coastal city at the southwestern region of the Balochistan (or “Makran”) province. The indigenous people of the province have historically been anglers and anciently known as “Mahi Khoran” by the Persians, coining the modern term “Makran”.

Inhabitation of Gwadar has been ancient, as early as the Bronze Age where settlements existed around some of the area's oases. Being captured by the Persians and the Greeks before them, the region came under indigenous rule in around about 303 BCE.

The Arab-Muslim army of Muhammad bin Qasim captured Gwadar in 711 and later the area was contested by various powers including the Mughals (from the east) and the Safavids (from the west) over the course of the next millennium. Gwadar was captured by the Portuguese in 1581, which was later then followed by almost two centuries of local rule by various Baloch tribes.

Then in 1783, Taimur Sultan ruled over Gwadar. The Khan of Kalat was the previous ruler of Muscat, who subsequently retook Muscat, and reestablished his rule by appointing a governor.

Records indicate that Pakistan paid Oman anywhere between US\$ 70 to 140 Million<sup>3</sup> for Gwadar in 1958. Gwadar officially became part of Pakistan on eighth of December that year. It was then a small and underdeveloped fishing village with a population of a few thousands.

Pakistan inducted Gwadar into Balochistan on 1 July 1977.

### 5.2. Gwadar: Location

Gwadar is at the south-west of Balochistan province, which shares borders with Afghanistan and Iran to the west. Gwadar is about a 100 kilometers from the Iranian border, and its proximity to the Persian Gulf is significant, since about 400 km away is the Strait of Hormuz through which about 20% of the world's oil (almost 17 million barrels) passes per day (Administration 2011). Considered internationally as a smaller port (Port 2012), it is about 500 kilometers west of Karachi. Once the road networks are complete, China would connect to Gwadar through the Indus Highway.

Gwadar is on a natural hammerhead-shaped peninsula forming two almost perfect but naturally curved semicircular bays on either side, namely the Gwadar West Bay and Gwadar East Bay (Anwar 2011). It lies at the apex of the Arabian Sea and at the mouth of the Gulf of Oman. It is one of the three main seaports of Pakistan, the other two being the Karachi Port, and the Port Muhammad Bin Qasim. The warm-water deep-sea port was completed in 2007, is 14 meters (46 ft.) deep, and has the capacity to handle the largest of cargo ships. The port would act as a trade hub and a transit for Chinese imports and shipments.

By land, the port is to connect with the Indus Highway (N-55), which would in turn connect with the Karakoram Highway in the North, near the Pakistan-China border. This would give the

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<sup>3</sup> This figure is inflation adjusted of the US\$ 3 Million paid to Oman. Some sources argue half of that amount was paid.

Chinese province of Xinjiang access to the Arabian Sea and pave way for the Great Asian Dragon to have access to trade with the Central Asian States and European countries alike. China and a few other central Asian countries are already working on road and railway networks to access the port (Gwadar News 2010).

Gwadar is one of the few planned cities of Pakistan, developed from ground up based on predominantly a plan of an economic and trade hub for the region.

The first cargo ship, the largest to port in Pakistan till-date, arrived on March 15, 2008 (Gwadar 2008). The port of Gwadar was officially opened on 21 December that year when the first international ship (a carrier from Qatar carrying fertilizer) anchored there (Gwadar News 2010).



Figure II: Gwadar’s Location – Close-up View<sup>4</sup>  
*Source: Google Maps*

### 5.3. Gwadar: Importance

The Baloch people have no history of economic development. The infrastructure there is severely lacking. Whatever available, like gas pipelines and other critical installations directly relevant to the few corresponding products, are vulnerable and subject to attacks and frequent disruptions. Gwadar is Baluchistan’s shot at coming out of feudalism and a primitive, caveman mindset. In fact, right now it is the only way to reintroduce the 6 million residents to the rest of the country and to the world, helping Baloch get rid of their bad spells of ignorance and

<sup>4</sup> Figure obtained from <http://maps.google.com/>.

violence. The development of Gwadar could stir other projects and initiatives in Balochistan in future, depending on of course, Gwadar's outcome.

Although several development plans and industrial and educational initiatives (Saleem Shahid 2012) are making the news, hardly any are nearing any actual development (Recorder 2010). Gwadar is the only project that has been somewhat realized.

Gwadar is the first infrastructure and technological development of the area in years, or probably even centuries. It is Balochistan's first international scale project, and a huge investment spot, the major chunk of it being Foreign Direct Investment (FDI). It is equally a necessary representation and symbol of the Baloch people, a development that is of utter importance to their image to the nation and rest of the world. The rest of the landscape of the province contains no substantial establishments or infrastructural deployments of this level.

Gwadar's vicinity to the Oil-rich Gulf States is another potential for the area, for gas and oil reserve exploration and trade and others' oil and gas transportation alike (Hashmi 1999). Dawn News (S. F.-e.-H. News 2008) cited that the Gwadar Port Authority "initially planned to cater 100,000 containers, 300,000 tonnes of general cargo and half a million tonnes of food grains".

Gwadar is also rich in fisheries, being an angler's bay for centuries, no less. The 600 km long coastal line has a potential to fish and crab exports and accompanying food-processing industries (Hashmi 1999).

## **6. OUTLINE OF THE PAPER**

This paper would first throw light on the features and importance of Gwadar. The first section would bring forth the theoretical framework of the benefits of Gwadar, and the significance of the port along with applicable economic, infrastructural, and to an extent, military implications. It discusses the potential of the port, its uses and strategic and economic benefits to stakeholders. It also highlights parallel developments that are required, and would take place to support the project. It analyzes the role of the Pakistani government and China, the other primary beneficiary of the project, and emphasizes on the favorable developments and implications the port has.

The second section highlights important developments and current scenario of the port, related developments along with information on competing ports in the region. The section also highlights other projects that are distantly related with the port project.

The third section discusses actual performance of the port comparable with the expected benefits.

The fourth section highlights why the performance has deviated from expectations, and what went right or wrong in Gwadar's journey to prosperity. Internal conflicts play a more critical role than foreign influences.

The last section summarize the findings of the previous sections, condensing the whole paper and skewing the privileges the Gwadar port project had, along with the lack of performances it suffers from. This section then concludes the findings and formulates recommendations for all stakeholders of Gwadar to help bring the efforts vested in the port to fruition and suggest a plan of action.

## **7. RESEARCH METHODOLOGY**

### **7.1. Data**

This paper is based predominantly on secondary data that has been collected through a variety of articles, including those published in business/economic journals, as well as several news sources, including digital ones. The idea for such a framework is provide the reader a better understanding of the topic. The research methodology revolves around study of previous papers on the subject. Various digital sources have been dug up to extract useful and relevant information, including journal articles, news, and web-articles etc.

(M, P and A. 2009), in their book of business research methods maintain that there are several types of secondary data. The method used in this paper, categorized by that book, is referred to as *documentary secondary data*, and although is mainly used in studies and projects that use primary data sources, it can be used on its own with other data sources (M, P and A. 2009).

Another reason for the method used is because the case of the Gwadar Port has some elements of a case study, one being done on a particular “area”. As sighted by (M, P and A. 2009) “... *those research projects that make use of documentary secondary data often do so as part of within-company action research project or a case study of a particular organization...*”

It is added that to broaden the horizon of this paper, two individuals were interviewed, although in a completely informal fashion. Even though their opinions may not have significant effect, those opinions should not be undermined.

### **7.2. Research Approach**

There are two different ways of approaching a research, namely the deductive approach or the inductive approach (M, P and A. 2009). Because of the character of the research in this paper, inductive research approach is implemented since this a qualitative study, whereas the deductive approach is directed towards quantitative studies. More importantly, the nature of the inductive approach is directed towards quantitative studies. More importantly, the nature of the inductive approach is about formulating a theory, which is based on observations and findings (M, P and A. 2009). Furthermore, the aim of the study is to understand and analyze opportunities and challenges, rather than explain and describe what is happening. Therefore, it is more appropriate to undertake this research inductively (M, P and A. 2009).

(M, P and A. 2009) also argue that it is worth mentioning what way is used to carry out research by selecting either the deductive or inductive approach; they add, however, that one should not blindly follow these approaches because they are misleading and of no real practical value.

### 7.3. Research Strategy

The characteristics of this paper would be referred to as an embedded case study, "... gaining a rich understanding of the context of the research and the processes being enacted..." (M, P and A. 2009). They also added "... the case study strategy also has considerable ability to generate answers to the question "Why?" as well as "What?" and "How?" questions..." (M, P and A. 2009).

This paper comprises mostly on qualitative research, primarily because of a serious lack of data and correct figures from the case under study that is the Gwadar Port. Most of the recent data that could contain actual numbers regarding the performance of the port from the time of inauguration are not available. Therefore, no actual figures can represent the eventual development or the fruits the Gwadar port has born. Other constraints in attaining accurate and meaningful data include the socio-political and economic situation, in its most critical form in the very province in which Gwadar is located.

It was not possible to carry out field research due to constraints of access to the port, or to hardcopies of data. Direct contact with related sources and personnel was also not possible, given time and cost constraints.

This thesis is about the Gwadar port and its economic opportunities and challenges. Since the research is focusing on one single case, it is synonymous with case studies. The paper also has a great opportunity of observing the case of the Gwadar port post its completion, something is unique to this study.

At least one individual directly related to Gwadar as well as Balochistan was interviewed in a basic non-methodical fashion for the most cases, bringing to the table some useful and interesting insights. The idea was to an opinion about the port project, the resulting findings representing only a sign of their perception, which may be, to some extent, be applicable to a few others. The opinions of Sikander Akram, a BS Marine Sciences student from LUAWMS (Lasbela University of Agriculture, Water and Marine Science) who was interviewed are of important consideration, given his Baloch background.

## **8. SCOPE OF WORK & LIMITATIONS**

The port of Gwadar along with the planned industrial zones and export processing zones are a very essential move in the economy of Balochistan as well Pakistan. This paper could have been more specific with respect to the effect of these developments and their contribution to economic indicators. These projects are, however, still in infancy despite planning and work that stems from at least a decade. Nevertheless, the economic importance of these projects cannot be undermined.

As most previous research has been carried out before, there has been no data available as many of the infrastructure developments envisioned are hardly in place. The much promising revolution the Gwadar port was hoped to bring suffers dearly, and only literary work has been used to conclude the previous papers. The port is yet to deliver estimated performance, and therefore, there is hardly any data available that can measure its success or conclude otherwise.

A serious lack of availability of information of any shipping data, or any relevant costs, tariffs or relevant variables is absent. There is a serious inconsistency in that data that is somewhat available. There is either minimal or no access to even nearby sources to retrieve any relevant information. Furthermore, a statistical assessment or implementation of economic models to determine Gwadar port's effects on the overall economy of the country, as performance of the port in its current condition is not formidable to have macroeconomic effects. For these reasons, most of the research has been carried out via the internet or whatever any other resources could assist.

## **9. PREVIOUS RESEARCH**

There have been rare instances of research on Gwadar, much due to the apparent infancy of the project. Most of the research has been done before the actual launch of the project, suggesting not enough accuracy of trends or indicators since most of the findings would have been theoretical and hypothetical. Furthermore, due to lack of availability of data and other facts, much of the research is qualitative. There still aren't many figures or relevant data available to quantify the attributes of the port or provide a discrete conclusion of the level of success or failure.

The research by (Jahanzeb 2006) is quite interesting considering certain direct implications with competing ports, highlighting major trends of oil and gas energy production in the world, with intense focus in the potential of Central Asian countries further triggering Gwadar's potential. The paper used certain direct variables, as in one case, comparing total transit distance, with, and without Gwadar. A few instances, it illustrated that Gwadar would have shortest routes through some regions, making it more a competitive choice than the alternatives. However, the paper undermined and overlooked the actual costs that would be incurred to establish these roads and rail links which would suggest otherwise, which will be further elaborated in this paper. Key findings of (Jahanzeb 2006) are that a necessary infrastructure needs to be in place to fully

benefit from Gwadar's potential. Adequate promotion of the port is also necessary along with parallel industrial developments that favor the same.

(Anwar 2011) has reiterated on the much repeated features and potential of the Gwadar port, citing certain elements as insecurity in Afghanistan and generally, Terrorism and lack of safety and insecurity in the region to be formidable obstacles; if these issues are treated properly, Gwadar could thrive, the writing suggests. However, the authors have seriously undermined that these 'issues' and 'obstacles' are predominantly out of control of stakeholders of Gwadar; the situation in Afghanistan is an almost entirely separate and exclusive matter, addressing which is not exactly on their 'to do' list.

Perhaps the closest and most interesting work is of (Hassan 2005), though still at a premature time. The author has highlighted various developments that are required – these range from setting up necessary transportation and communications network as well as industrial and economic zones, ceasing income tax, pursuing low-cost and renewable energy sources, minimal government intervention, and permission of foreign land occupation, among several others. The author has, however, overlooked that industrial and economic zones are already planned aggressively, and more will not follow until and unless they bear fruit first. Discontinuing income tax could severely disrupt government revenue. Foreign ownership would be extremely hard to attract, give the situation of Pakistan, and more so, that of Balochistan, where Gwadar lies. These research papers, and most others, have lacked in depicting a factual position and the trend ahead. This paper would fill in that gap and would also be a fresh and recent account of the port project of Gwadar, encouraging this research to have taken place.

None of the previous researches have, however, determined the performance of the port, or have concluded how successful Gwadar has been in achieving the expected economic targets. Furthermore, none of the papers on Gwadar have considered standard port theories or made an assessment of the level of these theories put to practice at the port.



## 10. THEORETICAL FRAMEWORK

### 10.1. Importance & Significance of Sea Trade

The importance of the availability and maintenance of trade ports is to help expand the scope of producers' markets for exports, as well as consumers' markets for imports. For goods and services either unavailable or costly, ports help import such goods and services and save costs. An increased variety and quality is made available by these hubs advocating open markets and economies.

Foreign investment and resources are also easily entertained. Growth for jobs in general and related industries in particular (i.e. transportation, handling, management, supplies and logistics) is also triggered. Both the trade host and guest economies (i.e. local and foreign) thrive and grow due to trade, where exchange of goods, services, skills as well as a cash cycles commences.

Trade is a major constituent of the economy, and pivotal to the growth of globalization and economic prosperity. In fact, World Container Trade has witnessed more growth than the combined global GDP growth (Bingham 2007).

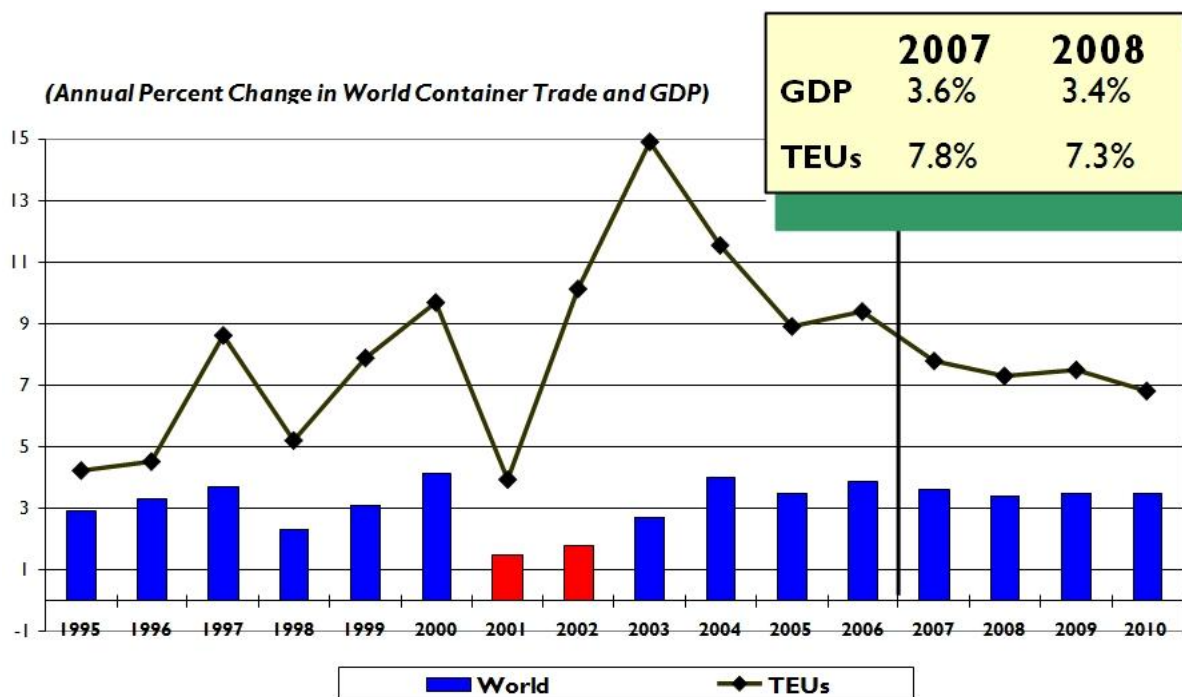


Figure III: World Container Trade compared to World GDP Growth<sup>5</sup>

Source: Global Insight, Inc.

Furthermore, the trend of the global container trade is believed to be doubled by 2020 of what it was in 2008 (please refer to the next figure).

<sup>5</sup> Figure obtained from Global Insight, Inc. (Bingham 2007).

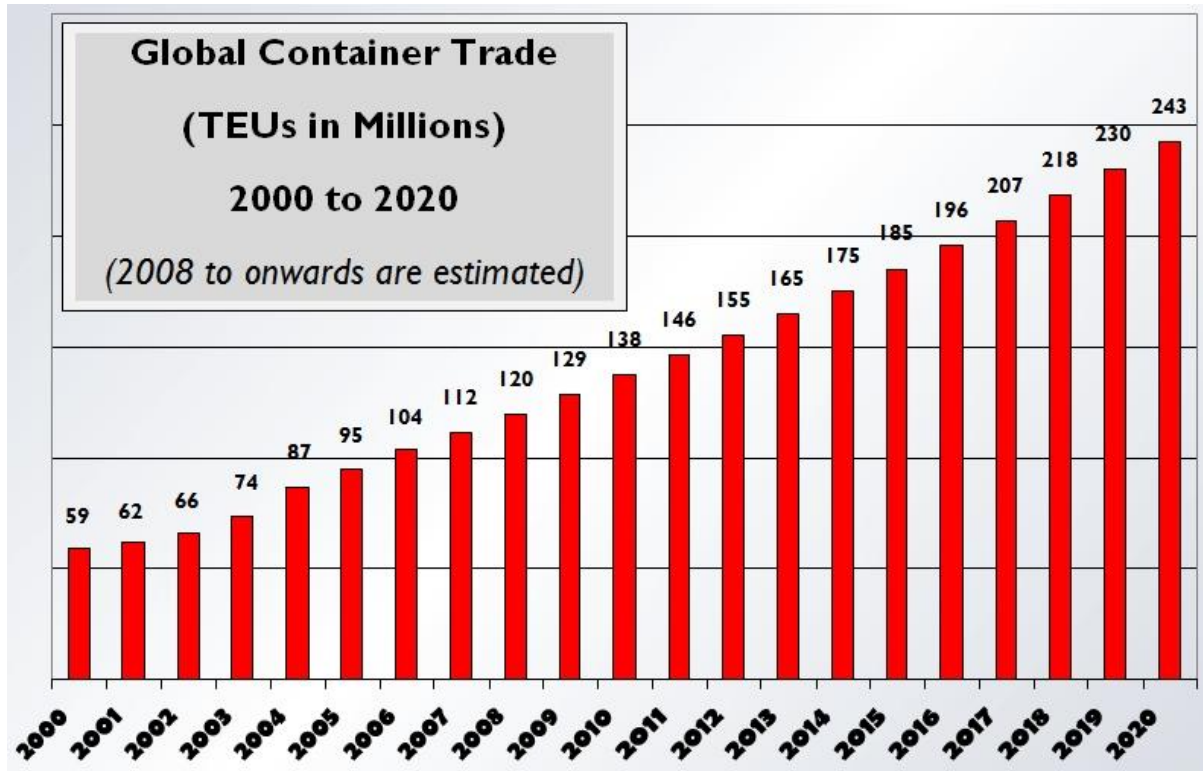


Figure IV: World Container Trade Growth (Estimated)<sup>6</sup>  
 Source: Global Insight, Inc.

Increase globalization and trade liberates financial markets providing them with a bigger avenue of exchange of goods, capital and services. It also provides faster growth, and broadens business horizons. A few countries like China, Singapore, Netherlands and the United Arab Emirates have trade contributing to a significant volume to their GDP.

## 10.2. Evolution of Ports

<b>A. First Generation</b>	Prior to 1950	Sea approach, transfer of goods, temporary storage, delivery.
<b>B. Second Generation</b>		Includes A, plus industrial and commercial activities which give added value to the goods. The port is a handling and services center.
<b>C. Third Generation</b>	Since 1980	Includes A, plus B, plus structuring of the port community, plus strengthening links between town and port and between port-users, plus extension of the range of sendees offered beyond the port boundary, plus an integrated system of data collection and processing. The port has become a logistics platform for trade.
<b>D. Fourth Generation</b>	Since 2000	Network of physically separated ports (terminals) linked through common operators or through a common administration.

Figure V: Generations of Ports

<sup>6</sup> Figure obtained from Global Insight, Inc. (Bingham 2007).

*Source: UNCTAD (1999)*

In the last 60 years, ports have evolved from mere trade windows to a comprehensive economic infrastructure. Modern Ports have evolved drastically in recent years to be able to cater a multitude of complimenting services. Simple import and export is a thing of the past. These ports now cater an extensive logistics infrastructure that includes complimentary development of the network in the towns and cities they are located in. Additionally, in the vicinities of these ports, extensive industrial and manufacturing zones, including purposely built ones, are a normal trend.

Most of the biggest and most successful ports around the world are fourth generation ports. (Verhoeven 2009) has introduced the concept of a three-dimensional fourth generation port that defines the modern port to be comprehensive, commercially and culturally well-connected, and an important element of the more global ecosystem of ports:

<b>Dimension</b>	<b>Sub-dimension</b>	<b>Key Features</b>
<b>Operational</b>	Ship-shore Operations	Core port services: cargo-handling (loading, unloading, storage), technical-nautical services and ancillary services. Strong focus on containers.
	Value-added Logistics	Shift from core to non-core port activities (various paths possible).
	Industrial Activities	Shift from traditional to sustainable industries (e.g. LNG installations, biofuel plants etc.).
<b>Spatial</b>	Terminalization	Multinational operators develop networks of terminals under corporate logic. Competitive emphasis shifts to terminal level, extending into the supply chain.
	Port-city Separation	Loosening of spatial relationship combined with the weakening of economic and societal ties (although first signs of re-integration initiatives appear - see societal dimension).
	Regionalization	Network development beyond the port perimeter, involves co-operation with inland ports and dry ports (load center development) as well as with other seaports in proximity.
<b>Societal</b>	Ecosystems	Seaport is part of a wider (coastal) ecosystem where it has a variety of environmental interactions with the outside.
	Human Factor	Sustainable co-habitation with local communities, focus on avoiding negative (pollution, congestion etc.) and stimulating positive externalities (soft values).

Figure VI: Verhoeven’s Three-dimensional “Fourth Generation” Multi-purpose Gateway Port Concept

*Source: (Verhoeven 2009)*

It has also been emphasized that having all dimensions is important, but it is all the more pivotal to successfully and efficiently integrate all three dimensions together for sustained profitable operations.

### 10.3. Role of Port Authorities

Globalization and the ever-changing competition and marketing environments have necessitated strict and stringent yet flexible port practices. It is indeed the survival of the fittest, and much is

expected from port operations, and thus, the authorities that operate them. A wider range of logistics networks and provision of value-added services is imperative. Despite the undeniably important role of Port Authorities, Carriers, Terminal Operators and Logistics Service Providers are thought to have more power over port-oriented logistics – much of this is market driven. Port Authorities are often criticized for negative impact on port performance, even when they are not responsible for such influences (Verhoeven 2009).

Since the introduction of containers, modern sea trade consists of a huge chunk of them, and containerization has set the standard of the method of freight as well as a measure of scale of a port (Verhoeven 2009).

Private operations of ports have also been recently emphasized to optimize port performance. Although ports have been publically managed in the past, a mix of public and private, or in more contemporary settings, complete privatization of port authority functions have been witnessed, optimum implementations of which have resulted in successful operations. The United Kingdom, New Zealand, Morocco, and in recent times, United Arab Emirates and a few other Middle Eastern countries have demonstrated this example well. However, overall government objectives are to be monitored in scenarios of privatization of ports. In addition, investments for the development of the required infrastructure are expected to arrive from the Port Authority and port operators.

#### **10.4. Port Financing**

Recent developments in global ports have illustrated that although port financing used to be a municipal, state or national process, exposure and globalization has made it a private affair, partially or even completely. Naturally, any port under consideration must demonstrate potential and promising economic returns in future to continue to attract investments. Foreign Direct Investment is also a key ingredient to the realization of the construction a port, all the more particular in case of developing countries. However, it is a continuous process, as certain theorists highlight (UNCTAD 1996). It is further believed that positive results of private investments, and for that matter, all the investments in a port can be witnessed in one to two years – the gestation period. In case of no notable improvement or sustainable performance in this timespan, it can be affirmed that strategic implementations were incorrect and miscalculated, and that they should be revisited (UNCTAD 1996).

#### **10.5. Regional Cooperation**

A very important aspect of globalization that could be eminent for port operation is optimal cooperation within the region of countries with common interests. Cooperation at insitutional, industrial or commercial level could be between port authorities, operators, ministries or governments. Sharing of trade networks, training, tariff standardization, joint ventures etc., are a few avenues co-players could work with. Complimenting each other for a win-win strategy has generally illustrated positive outcome for all participants (UNCTAD 1996).

## 10.6. Gwadar: Relevant Theories

### 10.6.1. Development & Potential

Given the capacity of the ports, and an already available landscape in the southwestern parts of Pakistan, the need for an additional seaport only encouraged development of Gwadar. Such traffic, notably from the Central Asian States and Afghanistan would be handled here. Equally significant is the national defense need for redundancy in the communication infrastructure. Evidence suggested that Pakistan's naval complexes near a single port area (Karachi) would not have been adequate enough in times of crisis and war, thus further bringing attention to not just economic, but strategic military development at Gwadar (Masood 2004).

Gwadar's role is indeed imperative, the port having been stated several times to be in lying in the energy corridor of the region. Petroleum & crude oil transportation is at the top of the list. With herculean quantities of oil that moves through in the near waters – the Strait of Hormuz, through which 35% of the world's sea-borne oil passes (Administration 2011) – the potential of the port is tremendous, if optimally exploited.

Gwadar is Pakistan's third port. If exploited to its fullest, it would be the largest port of the country, and not only that; Gwadar could very easily be one of the most important ports of the Middle East and Central Asian region. It would connect the Great Asian Dragon (China) with the Oil-rich Arabs. It is a warm-water port; it operates all year. It is a deep-sea port, and can handle the largest ships. It can connect India and China – the two most populous countries – directly to the Middle East.

Theoretically, Gwadar would be a strong candidate for the completion of a fourth generation port, and would have all complimenting industrial and infrastructural amenities that successful ports like the Port of Jabel Ali have.

Arthur D. Little (Malaysia), the main consultant firm of the Gwadar Development Phases, cited the following great opportunities the port city has, and the resulting benefits (Little 2006):

- Low Cost Land & Labor Available
  - > *Industrial Complexes and Labor-intensive Units*
- Proximity to Oil & Gas Resources as well Fast Growing Gulf Countries
  - > *Import Export Opportunities & Relevant Refineries/Industries*
- Proximity to Major Shipping Lanes
  - > *Shipping Repair and other Relevant Industries*
- Some Agricultural and Mineral Resources
  - > *Food processing, Fisheries and Mineral Extraction/Processing*
- Tax-Free Status for Investments and Trade
  - > *Export Manufacturing*

One of the greatest add-ons Gwadar has is being a hub port, placing it even more strategically than the other two ports of Pakistan. A hub port is one that not only handles the local port

demands, but also caters trans-shipments. The shipment arriving at a hub port suggests that the port is not its final destination, but a ‘connecting’ station, making the port an ‘intermediary’ host for cargo.

Serving as a hub increases the scale of trade of the port, multiplying porting and departing volume significantly, and it would be in Gwadar’s favor to handle this increased scale of work and shipping volumes alike. Records indicate that Pakistani ports other than Gwadar handled 60 million tonnes in 2011, a volume which would increase predictably to more than 75 million tonnes by 2015 (Masood 2004), necessitating the flexibility and handling capacity by the presence of another port – none other than of course, Gwadar.

Whereas the Azerbaijan and the Stans of Central Asia (Turkmenistan, Uzbekistan, Kazakhstan) having reserves of US\$ 4 Trillion worth of oil and gas resources, it has been sighted that by 2050, the Central Asian states would account for up to 80% of oil for the United States. More so, Saudi Arabia has a joint venture in China to establish a US\$ 3.6 Billion oil refinery that will be using oil imported from the Arabian Gulf (Jahanzeb 2006). With oil demands predicted to continue to rise for years to come, it would require significant and multiple transit routes for shipments, of which Gwadar could be an important part.

It was pointed out that distance for shipments moving from Urumqi in China coming to Dubai and London could be halved from 14,400 km to 6,900 km, saving significant transit time, as the distance from Dubai to Khunjerab is 5,300 km (APP 2011).

Linkage of trade routes with Afghanistan in the west are also very promising, for Afghanistan is a country with the “world’s largest deposits of copper and large deposits of high-grade iron ore besides unexploited reserves of oil, gas, coal and precious stone” (Jahanzeb 2006).

Gwadar’s natural features can also not be undermined, which would be more obvious in a few decades; due to global warming and increased trends of erosion of shores, ports that are on sandy coasts are jeopardized. However, Gwadar is a rocky shore, and doesn’t require preemptive measures to protect it from tides and waves; it already has a natural defense of mountains and rocks (Akram 2012).

#### ***10.6.2. Port Competition, Free Trade & Tax Holidays***

The government of Pakistan extended tax exemptions and tax holidays at various industrial zones and duty-free economic zones in the area to attract investments and trade volume at Gwadar, on pretty much the same lines of few of the Gulf and Iranian ports. This also includes a concession agreement (CA) of 40 years to The Port of Singapore Authority (PSA) that includes tax exemption. These initiatives, taken on the same footings as the new international trend in port operation would also be priceless for the successful operation of the port.

A proposed Export Processing Zone (EPZ) near Gwadar port for local and foreign investors also includes exemptions on customs, sales tax and excise duty (I. H. News 2007).

Iran, due to international sanctions and difficulties, has been significantly isolated from international trade and transshipments through its ports. Then there are capacity constraints the country’s ports suffer, as far as goods shipping from Central Asia are concerned. Even Pakistan’s

other two ports are operating at almost maximum capacity (Hassan 2005). All this gives Gwadar a better shot at business and market presence.

### ***10.6.3. The Road and Rail Network***

An extensively planned rail network to supply oil from the Persian Gulf to Xinjiang could integrate Pakistani links with the Chinese and the Iranian.

Already existing roads near the Afghan border could also be improved to support Gwadar's trade routes (Hashmi 1999). Prefeasibility studies for a 660 km long rail track between Havelian and Khunjerab has been completed, estimated at a cost of at least US\$ 10 Billion, with no further developments having taken place yet (APP 2011).

Pakistan and China signed a memorandum of understanding 2006 to upgrade Karakoram Highway in order to connect Kashgar and Abbottabad, eventually joining Xinjiang with the Gilgit-Baltistan region (Jaffrelot 2011).

If a road network were established with the Central Asian countries, transit through Gwadar would be the shortest distance, as in case Tajikistan and Uzbekistan (Jahanzeb 2006).

### ***10.6.4. China: The Dragon's Role***

China accepted its role in developing the port as well as to adjoin the rail network of Pakistan with their track in Xinjiang. The resulting path, along with a similar road network "would be the shortest route for oil transport from the Persian Gulf" (Masood 2004). This was considered by Chinese to save both time and costs. China's assistance was also requested for the development of the new Gwadar International Airport; a Chinese company demonstrated support there as well.

The primary significance of the Gwadar port, other than that of course to Pakistan, is to China. China is also the major financier of the development of the port, providing almost US\$ 200 Million along with 450 professionals and engineers (Jaffrelot 2011) for Phase I of the project. The port is the latest development in a long haul of Chinese-Pakistani cooperation on several mutual economic – and in rare cases, military – projects. Regardless of the potential interests of other governments in investing or developing Gwadar, China has so far been the most resilient. From consumer goods to developing natural resources and countless mining projects commenced in Balochistan, China "has been the biggest foreign investor and partner in the development of Gwadar port for commercial shipping as well as an energy hub" (Fazl-e-Haider 2009).

From 60 percent of Pakistan's military systems and equipment being Chinese, and several mutual projects the countries have worked on (Masood 2004), Gwadar is another example in the endless list of collaborations. Furthermore, bilateral trade between the countries had risen to US\$ 8.7 Billion in 2010, increasing four times over a span of 8 years, growing 28% annually. Pakistani and Chinese exports are growing by 30 % by 25% respectively. A total of 13,000 Chinese are working in 120 enterprises in Pakistan (APP 2011).

In 2011, Premier Wen Jiabao, during his visit to the country, signed trade deals and MOUs of almost US \$35 billion's worth (Collins 2011), significantly re-strengthening China's economic interests in Pakistan and reiterating upon mutual collaboration of the two nations.

A Gwadar Petrochemical City project was announced in 2006 by The Great United Petroleum Holdings Company Limited (GUPC), where the company signed agreements "to conduct a feasibility study". In the long run, up to 2,000 service stations were to set up in the country. A refinery with a capacity of up to 200,000 barrels per day with capacity being doubled afterwards was also announced, eventually proposing 12,000 acres of land projects (Fazl-e-Haider 2009).

In the earlier period of the development of the port, and it is quite possible way before that time that the Chinese would have considered Gwadar to include in its, as commonly termed String of Pearls (China's sea-lines of communication) for the Asian/African region (Wikipedia 2012).

As the United States in the west, and Russia and India to the north and south criticize frequently, China has had intense focus on its global access points. The Asian giant has been keen on keeping a systematic and well-integrated network along its borders, which has given it considerable outposts to observe various global movements and implications. Pakistan is already a territory considered more than friendly; such a plan of action to include Gwadar in its ever-growing paws could naturally be an attraction for the dragon to, as (Lee 2011) puts it, "bathing its vermilion claws in the milk-warm waters of the Indian Ocean".

## **11. GWADAR: WHAT WAS PLANNED**

### **11.1. The Port: Phase I**

The Gwadar news made many headlines, especially in the local community. Globally, it brought news of investment interests from Britain and Poland to the Middle East, China and the rest of the Asia Pacific (T. News, Britain, Poland show interest in Balochistan 2007). In fact, decades earlier, Prime Minister Zulfikar Ali Bhutto proposed collaboration with the United States for the development of Gwadar (Jaffrelot 2011). Finally, President Musharraf kick-started the port project in 2002 (Ahmed 2012) with major support from China.

When the crystals of the Gwadar mix solidified, however, Oman, United Arab Emirates, Qatar and China and Singapore were amongst the few countries left to have a formidable role in investments and development of the port city – and to a rare extent – the rest of Balochistan.

Arthur D. Little, Malaysia, Lyon Associates, USA and Indus Associated Pakistan prepared feasibilities for the Master plan of the port (Anwar 2011). Phase I at a cost of almost US\$ 300 Million was completed in 2007, with majority of the support coming from China (2/3<sup>rd</sup> of the costs, apart from technical assistance). It includes three (3) multipurpose berths, each 200 meters long and, is capable of handling vessels up to 30,000 DWT (Masood 2004). Phase II was planned for development by the private sector, at a cost of US\$ 600-850 million, to be completed by 2010. The estimates contained ten (10) more berths along with a 5-kilometer approach channel. These channels would have the capacity for vessels up to 50,000 DWT (Hashmi 1999). If both



phases are made operational, Gwadar could operate at a capacity of at least half of that of the Port of Karachi, and, at a few berths, ships and tankers twice the size of those docking at either Port Muhammad bin Qasim or the Port of Karachi (Rehman 2003). The Federal Government also announced almost US\$ 15 Million in 2008 for the establishment of a 1000-acre Export Processing Zone at the port, whereas the Baloch provincial government also set aside some US\$ 150,000 for a sports complex and a hospital, adding that they are “in progress” (S. F.-e.-H. News 2008).

Reports indicate that plans for development of Gwadar were formalized in 1993, but it wasn't until 2002 that construction of Gwadar Port began. Pervaiz Musharraf, then-president of Pakistan, revisited plans for development of Gwadar amidst an otherwise political imbalance and a critical position of the country. At the time, Pakistan was dealing with political instability issues with a Martial Law administration still in place. No thanks to the 9-11 incident, or the War on Terror initiative of the United States, which further worsened the situation for the country and its inhabitants, placing blame over them, and at the same time, asking for their utmost support to eradicate terrorism in the region. Nevertheless, Pakistan approached China and major MOUs and agreements were signed followed by formalized developments afterwards.

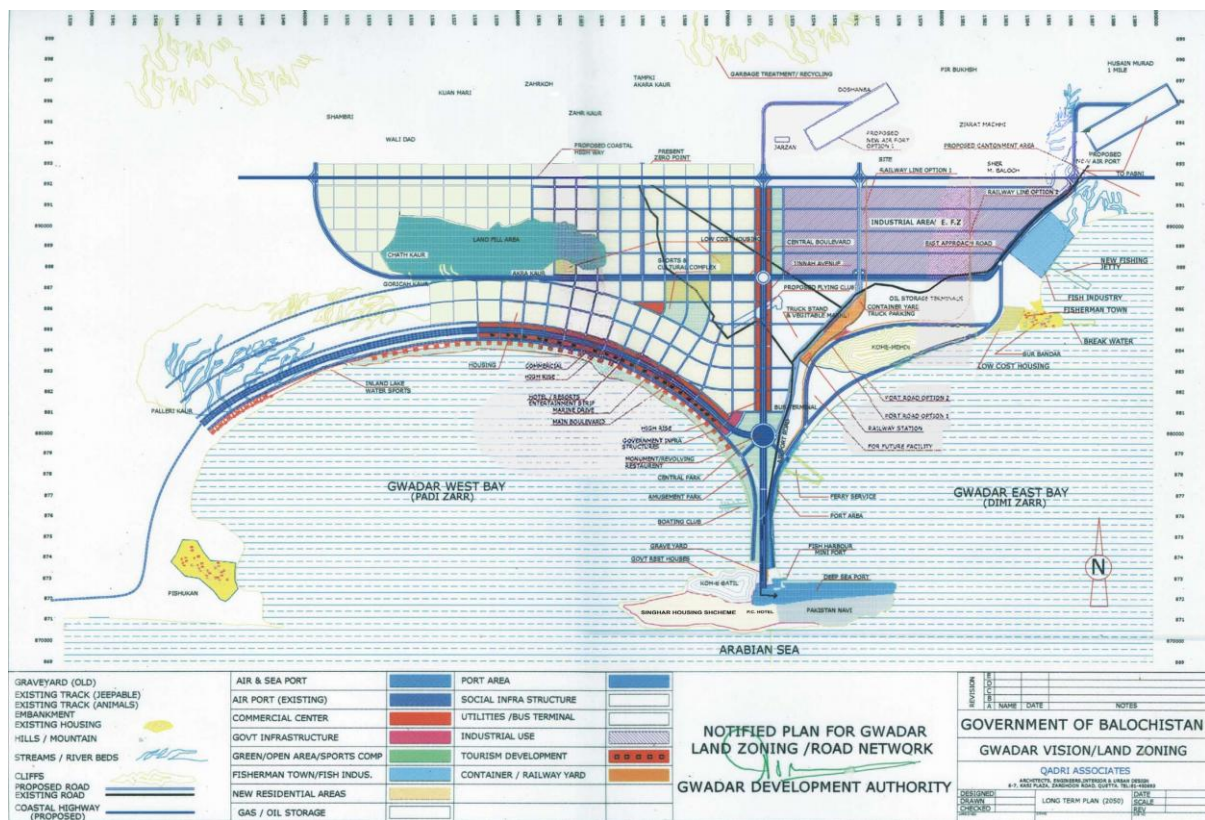


Figure VII – The Gwadar Port Master Plan<sup>7</sup>  
 Source: Al Noor Associates/ Gwadar News

<sup>7</sup> Figure obtained from <http://www.gwadarnews.com/gwadarphotos/gwadamasterplan.jpg>.

The First Phase of the Gwadar Master plan was completed in 2005, with the city going under major construction from 2002 until 2007, with relatively slower development afterwards. In 2004, the 653 km-long Makran Coastal Highway (N10) was completed by Pakistan's National Highway Authority (NHA), linking Gwadar with Karachi while passing through Pasni and Ormara. The Asian Development Bank also pooled in US\$ 500 Million into Pakistan's account to improve the road network in the country (Hassan 2005). The Gwadar Development Authority was established in 2003, overseeing the planning and development of Gwadar. Gwadar Industrial Estate Development Authority was established to promote industrial activities the city. Gwadar was connected with the Sindh province in 2004 via the M8 section of the Motorway. A 50-year Master Plan for Gwadar was conceived in 2006. Initial international funding and interest was initiated by China, which provided 80%, or US\$ 198 Million of the US\$ 248 million Sino-Pak agreement signed in March 2002. Pakistan pooled in US\$ 50 Million (Masood 2004). The China Harbor Construction Corporation was nominated for construction of the port (Hashmi 1999). Phase I of the construction of the Gwadar Port cost US\$ 298 million (I. H. News 2007). The government of Pakistan has also extended tax exemptions and tax holidays at various industrial zones and duty-free economic zones in the area.

## **11.2. Phase II and Other Initiatives**

Phase II was to be completed by 2010 at a cost of roughly US\$ 840 million, making Gwadar a likely stop and to become one of the busiest ports of the region. Facilities ranging from warehousing, trans-shipment and industrial centers for trade with over 20 countries, including Gulf Countries, Iran, Central Asian States, India, Sri Lanka, Bangladesh, China and East Africa, were to be deployed.

To enhance oil-related trade and related processing industries, oil refineries were to be set up, again, with foreign collaboration.

In the north of Gwadar about 30 km from the port, a Special Industrial Development Zone (SIDZ) over 4,000 hectares of area would also be set up for various industries.

The Federal Government (Islamabad) was to provide US\$ 12 million to Balochistan to meet 15 years water demand of the Gwadar Industrial Estate (GIE) through installation of a desalination plant, where there was no source of clean water at the time. Both recycling of wastewater (irrigation/industrial cooling) and the planned desalination plant would satisfy the water requirements in the area.

In collaboration to the government plan, Balochistan provided 3,000 acres of land – 20 acres to of it to set up the water desalination plant and facilities. This would bring the cost of water supplied to the area locally to almost 1/3<sup>rd</sup> of the cost otherwise incurred to obtain water from tankers.

The Gwadar Industrial Estate (GIE) was looking at around 2,000 industrial units, employing 30,000 workers. Production would be export-oriented, bringing foreign exchange to the country (I. H. News 2007). Gwadar was forecasted to create three (3) Million jobs, with most of the Baloch locals to be employed there (A. -G. News 2008).

An expansion of the Phase II was also a motorway stretching down to Balochistan and the areas close to the port to support industrial installations and oil and gas related facilities and storage centers (S. F.-e.-H. News 2008).

Pakistan also had plans to construct a US\$ 1.5 Billion railway link with China at Kasghar from Havelian along with another parallel project to link Afghanistan at Kandhar with Quetta (Anwar 2011).

The United Arab Emirates also planned their Khalifa Oil refinery for Gwadar with a capacity of up to 300,000 barrels per day; in 2007, Abu Dhabi's IPIC signed an agreement of at least US\$ 5 Billion to construct the refinery. The project is scheduled for completion in 2012 (Fazl-e-Haider 2009).

### **11.3. Military Developments**

Pakistan had envisioned that it would also support its naval base in Karachi from Gwadar city and naturally, the Gwadar Port.

Conflict with India have stemmed from the time of independence of the two countries back in 1947. For the last half a century, moments of hoaxes and rumors, with a few of these even following through the realm of reality, have surfaced. From news of India holding up water of the rivers flowing into Pakistan to India creating blockages in the seas leading to international waters have haunted the nation, at least psychologically anyhow, if not physically.

Hampering of our supply lines was also expected after the Kargil War of 1999. Gwadar gave the government solace in establishing an alternate gateway, must other channels be compromised (Hashmi 1999).

On September 6, 2007, news surfaced that the Pakistan Army GHQ was showing interest in acquiring 11,000 acres of land at the port to build a Defense center, then named as the Combined Defense Complex, or CDC.

The government argued that the law and order situation in Balochistan had not been promising, and thus, such a military establishment at the port would a) provide the defense headway to the seas and give them international access, b) provide security to the port. The government has gone to the extent to establishing two garrisons in Balochistan, and the military infrastructure to be set up at the port has been termed by one source as "making the port safe and secure for international trade" (Rana 2007).

Pakistan's navy could also find it easier to operate closer to the Gulf. In times of [probable] threat, the military could always divert assets and control towards the western coasts of the country. Pakistan would have the ability to more strategically operate against the Indian forces, if need be. However, Gwadar is well within range of Indian missile attack (Masood 2004).

#### **11.4. The Gwadar International Airport**

An airport of international standards at Gwadar was conceived back in 2002 when then-President Musharraf revisited plans of the city and, more importantly, the port (Tribune 2011). The Civil Aviation Authority of Pakistan acquired 4,300 acres in 2007 to construct the New Gwadar International Airport on 6,000 acres, 26 km northeast of the current airport (A. -G. News 2008). The airport was announced to the largest terminal in the province, estimated then at a cost of US\$ 125 million. Oman had provided Pakistan \$17 million in 2008 to set up the airport, with the Pakistani government announcing its own contribution of US\$ 11 Million at the budget of 2008-09 (S. F.-e.-H. News 2008).

The new airport, once complete, would be equipped with facilities for both passengers and cargo handling (Tribune 2011). Naturally, for a port of this magnitude, and a multitude of possible trade routes from Iran and Afghanistan, to Central Asian countries, extending to India, would require additional sources of transportation. An airport of such standards would complement the potential of Gwadar's port.

Additionally, in 2010, a flight of Rayyan Air “inaugurated the first Islamabad to Kashgar cargo flight” (APP 2011), bringing forth all possible sources that could be exploited to diversify the methods of transshipments.

#### **11.5. The Port of Singapore Authority (PSA)**

PSA was one of the bidders for the Gwadar Port Operation project. The company, through their subsidiary PSA Gwadar Ltd signed a 40-year concession agreement with the GDA (Gwadar Development Authority) on February 6, 2007. Thereby, PSA was prized with rights to operate the port, and a 40-year on tax exemptions and holidays (International 2007), however, followed by concerns from both the World Bank as well as the Asian Development Bank. However, the PSA highlighted that they would be investing, for starters, US\$ 550 Million at the port, which gave it favorable nods from the Federal Government (I. H. News 2007).

PSA commenced its operations in 2008, with the first ship docking at the port in March.

## **12. GWADAR: THE COMPETITION**

The introduction and development of Gwadar has been very late with respect to other ports in the vicinity that have had a head start. To the disadvantage of Gwadar, these ports represent economies that are much more stable than Gwadar's mainland. These ports received more attention from their governments, are more focused, and do not have to suffer from the inherent obstacles that still hold Gwadar in its chains. Initially, the port is expected to face competition from Port Salalah of Oman (I. H. News 2007).

The World Port Source (Port 2012) lists ports according to five (5) categories. There are the largest ports in the world i.e. the Ports of Singapore, Amsterdam, Rotterdam, Hong Kong, and Shanghai etc.; there are ones that are large i.e. Port of London, Chicago, and those that are medium i.e. Ports of Jebel Ali, Karachi, Salalah, Khalifa. Lastly, there are smaller ones like Gwadar, and several very small ones. The details of the ports competing with Gwadar are as follows:

### ***12.1.1. India***

India has at least 76 and small, medium and large ports spanned well over all the coasts of the peninsula. At least 15 of them are in well within an 800 km range of the Karachi ports, and 600 to 1000 km range of Gwadar. Half of them are medium sized ports, a serious competition to the relatively smaller sized Gwadar port.

### ***12.1.2. Kuwait***

The Port of Doha of Kuwait is a relatively smaller sized port. The Port of Shuwaikh, however, is Kuwait's most formidable port, situated in the Persian Gulf. It has a power station and a water desalinization plant for Kuwait city and is quite developed, containing adequate port-related facilities as well as markets. The port also has deep berths, and handles cargo ships, fishery containers and even passenger vessels. Its depth ranges from 7.5 to 9 feet, and the dredging is 8 km long, the port being almost 800 acres on land and 300 acres on water. The Port of Shuaiba, the country's other formidable port is a well-established industrial center that has "an oil refinery, a petrochemical plant, and a seafood-packing plant" and "one of the biggest seawater desalinization plants in the world" (Port 2012). The port was made as a compliment for the industry, and handles raw materials and various other kinds of cargos. At a depth of 10 to 14 meters, it is 4 km long. All of the Kuwaiti ports are operated by the Kuwaiti Port Authority.



Figure VIII – The Ports of the Region<sup>8</sup>  
*Source: World Port Source/Google Maps*

### **12.1.3. Bahrain**

The Port of Mina Sulman is a medium-sized port of Bahrain’s capital, Manamah. It is almost 250 acres with 600-meter long berths. Eighty percent of the cargo is container based. Port Sitra is a relatively smaller port of the country.

### **12.1.4. Qatar**

The Port of Ras Laffan of Qatar is primarily an oil industry based port, with aggressive deployment of relevant infrastructure. Interesting to note is its operating “the world’s biggest liquidized natural gas export facility” (Port 2012) over 2100 acres. It is almost 18 km long. The other medium-sized port is the Port of Doha, and a smaller one, the Port of Mesaieed that is for small boats and jetties.

### **12.1.5. United Arab Emirates**

Handling almost a million tonnes of cargo each year, the famous Port Zayed of United Arab Emirates is one of the two flagship ports of the emirates. The port spreads over 1260 acres, has 21 berths with and an annual throughput of 2,000 vessels.

<sup>8</sup> Figure obtained from <http://maps.google.com/>.

The other flagship port of the Emirates is the Port of Jebel Ali, the biggest port in the region, home to the world's largest man-made harbor (Port 2012). Host to thousands of companies from hundreds of countries, armed with the state-of-the-art port handling and timed loading, linked to the airport, containing extended storage for oil products, raw materials and perishables alike, and the capacity to hold large vessels, the Port of Jebel Ali is a true inspiration for all other ports in the region. It has even attracted the US Navy's attention, being their most visited port (Port 2012). It is also close to other attractions in Dubai, harboring even more revenue.

The Khalifa Port project of Abu-Dhabi is was scheduled for completion in 2010. Though the project fell behind schedule, it will be ready in late 2012. At a cost of almost US\$ 7 Billion, the port is 90% complete, with a supporting industrial zone spanning over more 417 square km also more than half complete. With the port aimed at contribution more than 1/10th of the GDP of the United Arab Emirates besides oil-related income (Zawya 2012), the port will be a serious challenger for competitor ports in the region. The port of Fujairah is a relatively small port project, with capacity for general and bulk cargo.

The Port of Khor Fakkan is one of Sharjah's three ports, mainly exporting to the subcontinent. The Port of Hamriyah is a free trade zone, with no taxation. The port also deals with South Asian markets, as well as African and Australian ones. Port Khalid of Sharjah has been an important port for three hundred years up to the 19th century. It contains 21 berths dedicated to a multitude of options and cargo-type handling.

Dubai's Port Rashid is a fabricated port. Even though it contains up to 35 berths, the Emirate is focusing on shifting the traffic to the Jebel Ali.

#### ***12.1.6. Oman***

Much of Oman's economy is based on trade. The Port of Salalah is Oman's main port, one that is deep-water, capable of handling the largest of vessels. It goes up to 16 meters deep. The main purpose of the port, given its premier location and huge handling capacity makes it perfect for trans-shipments. This port is a very direct competitor of the Gwadar port. Also formidable is the Port of Sultan Quboos, another medium-sized port a, apart from which, Oman has three smaller ports; the Port of Sohar, the Port of Muscat, and the Port of Qalhat.

#### ***12.1.7. Iran***

Iran has six ports – three of them being the Port of Khorramshahr, the Imam Khomeini Port and the Port of Bushehr, which are at a considerable distance from Gwadar.

The Port of Shahid Rajai however, is Iran's busiest port, with major exports being oil-related goods. The Port of Bandar Abbas is another medium sized port. The Port of Chabahar is the closest port to Gwadar. However, this a small sized port. Shahid Beheshti is another upcoming port being developed by Iran.

### **12.1.8. Pakistan**

The Karachi Port is Pakistan's largest port with a throughput of 1.7 Million TEUs (Twenty-foot equivalent units<sup>9</sup>) in 2011. The Port Muhammad Bin Qasim is a relatively medium-sized port that had a shipment throughput of almost 900,000 TEUs in 2011 (Port 2012).

Pakistan itself is working on a fourth port project, the Pakistan Deep Water Container Port (PDWCP) at Keamari Groyne in Karachi, where almost US\$ 1.2 Billion is expected to be incurred (US\$ 600 Million for Phase I) by the time of completion of the project in 2013-2014 (Trust 2009). The Karachi Port Trust (KPT) expects it to be the major breadwinner by then and has already awarded the construction of Phase I to Hong Kong based Hutchison Port Holdings (C. A. Today 2012).

## **13. GWADAR: RECENT DEVELOPMENTS**

### **13.1. The Government's Role**

To civilize the situation at Gwadar (where any major development there also contributes to the province as a whole), a Civic center has also been almost completed. Spanning over more than 5,000 yards, this center is dedicated to offices, banks, halls and other business related amenities, further complimenting and providing support facilities to trade (Pakistan 2012).

In light of so much tension that had flared up amongst the Baloch people (of 'Pakistani intervention' in the province), The Chief of Army Staff finally did take a favorable on April 16, 2012, when he announced the military's cooperation with the provincial government. To the relief of the people, which one could hope would be long lasting, he declared the army not carrying out any further military operations in the area, without the consent and approval of the ministry of Balochistan. He added that military presence at Sui and Gwadar in the next two months and in the future, no operation will take place in Balochistan without the permission of the provincial government. Adding to it, he also announced more opportunities and role of the province by highlighting that they army would enroll 5,000 Baloch youth in the force. He also referenced the establishment of an Army Medical School in Balochistan (Nation 2012).

Such development should be a sign of relief for the people there, and must highlight the cooperation of the armed forces as well as the country on the whole, suggesting a sign of peace from the rest of the country – something unfortunately the Baloch people are finding hard to swallow.

### **13.2. Gas Pipelines**

The Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI), or the Trans-Afghan Pipeline as it is commonly known, is one that follows Pakistan down to Balochistan province. Pakistan,

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<sup>9</sup> The TEU is a standardized international measurement of a port's throughput – or the amount of cargo passing in or out of the port. One TEU represents the volume occupied by a 20-foot container.



China and the other countries involved signed US\$ 7 Billion worth of agreements (Anwar 2011) for the 1,600 km project, while China has separately signed various other pipeline projects with the Central Asian countries (Jahanzeb 2006). Though the project has been in serious delays where the first MOU was signed almost two decades ago, once the project is realized, it will have significant value for Gwadar. There is parallel gas pipeline project; the Iran-Pakistan-India Gas Pipeline (IPI), signed with Iran at almost an equally estimated cost (Anwar 2011) measuring some 900 km, though believed to be discouraged by the United States, in favor of (TAPI) (Lee 2011).

## **14. GWADAR: CURRENT SCENARIO**

### **14.1. Current Status**

Despite the original conception of Gwadar as a fourth generation port with several complimenting amenities, the port still lacks the primary features that could declare it one. With no real infrastructure in place to compliment and support necessary port functions, it has witnessed diminishing cargo handling and hardly visited by vessels.

At the very base of the funding of Gwadar was China, which is consistent to standard theories and practices of contemporary port establishments. FDI fueled the development, and was the main catalyst, as government, state or even private investment at Gwadar is miniscule compared to what China pooled in. However, parallel developments at the port were not present. Quite ironically, where theories suggest that private parties, most particularly, the port operators and port authorities in this particular case are huge contributors to fiscal needs, this was not the case with Gwadar. The Port of Singapore Authority (PSA) who is operating the port has a miniscule contribution towards the whole of the project (Lee 2011), (S. TV 2010). This could very easily suggest a severe lack of interest from them, the results of which are evident. However, it is also normal to criticize Port Authorities in case of unsuccessful operation, as facts would later highlight. Part of the inconsistency in PSA's commitments is intertwined in the lack of parallel developments, which according to PSA, are a strong necessity.

### **14.2. Performance**

#### ***14.2.1. Performance: Highlights***

The port is reported to have handled about \$700 million in cargo in 2009, less than half of its cargo capacity (S. M. Reuters 2011). The port has so far handled 120 vessels (as of 2011) carrying total cargo of 2,286,781 Tonnes<sup>10</sup>.

With each container employing to 240 persons and cargos including fertilizer, wheat and sugar (I. K. Times 2012), the port has a long way to go to attract business and generate major income.

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<sup>10</sup> Transportation figures of Gwadar Port from the Economic Survey of Pakistan 2011 – Ministry of Finance.

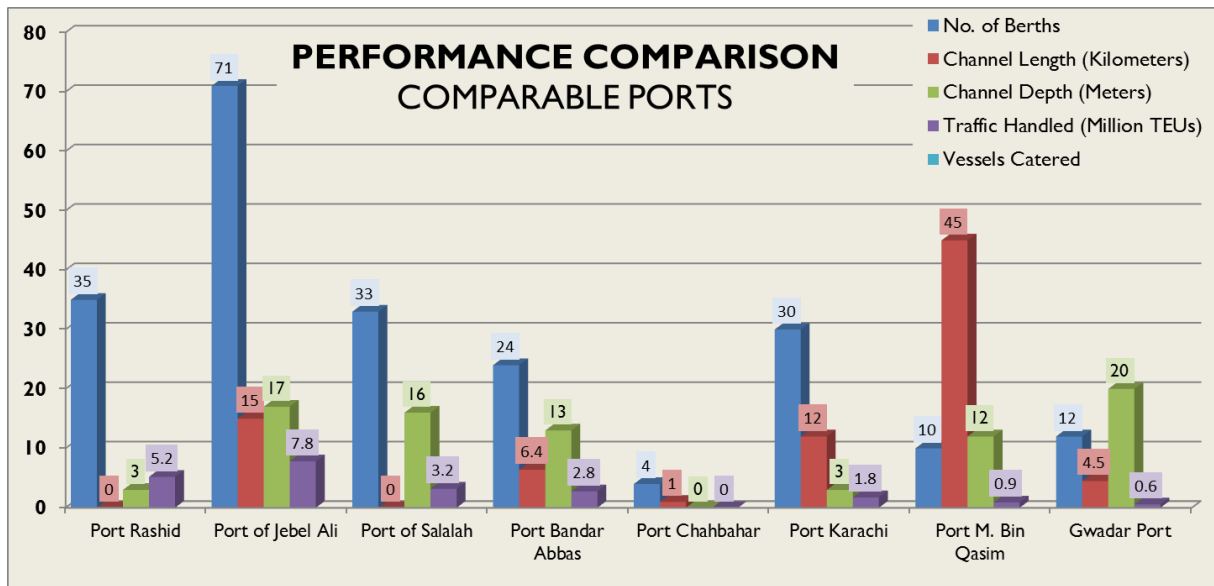


Figure IX: Performance Comparison – Comparable Ports<sup>11</sup>  
 Source: Data from (Hassan 2005) and other port websites

#### 14.2.2. Performance: Expected vs. Actual

Pakistan’s annual trade that has been estimated to reach 75 Million tonnes by 2015 (Hassan 2005) has reached at least 60 Million tonnes already. Unfortunately, this doesn’t have much to do with Gwadar; the port is not even close to the aspired shipping volumes, estimate for as early as 2005.

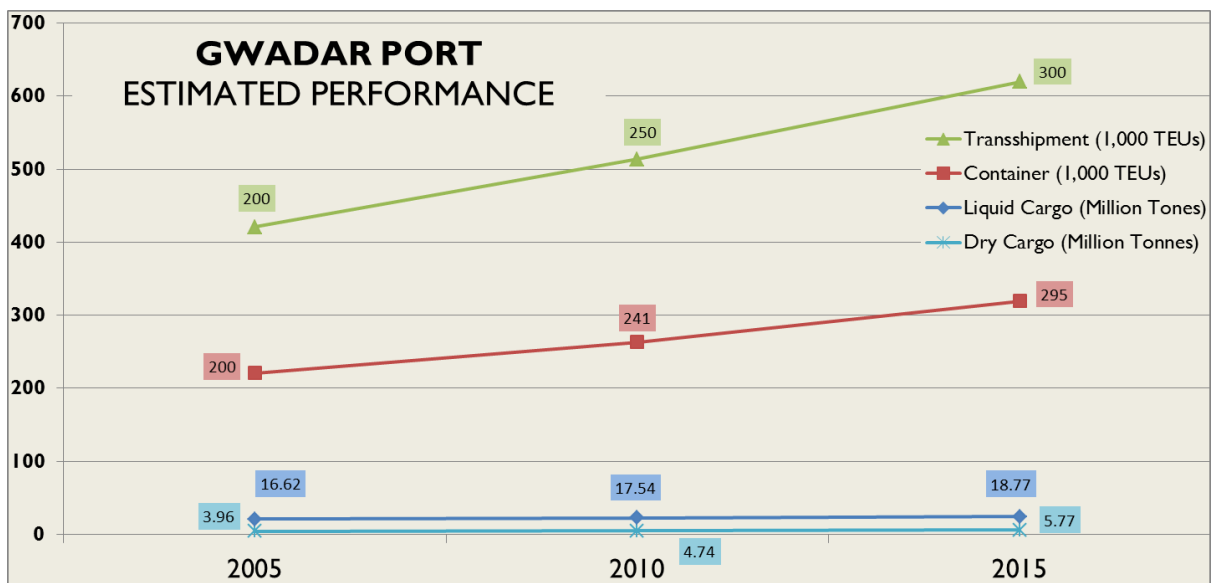


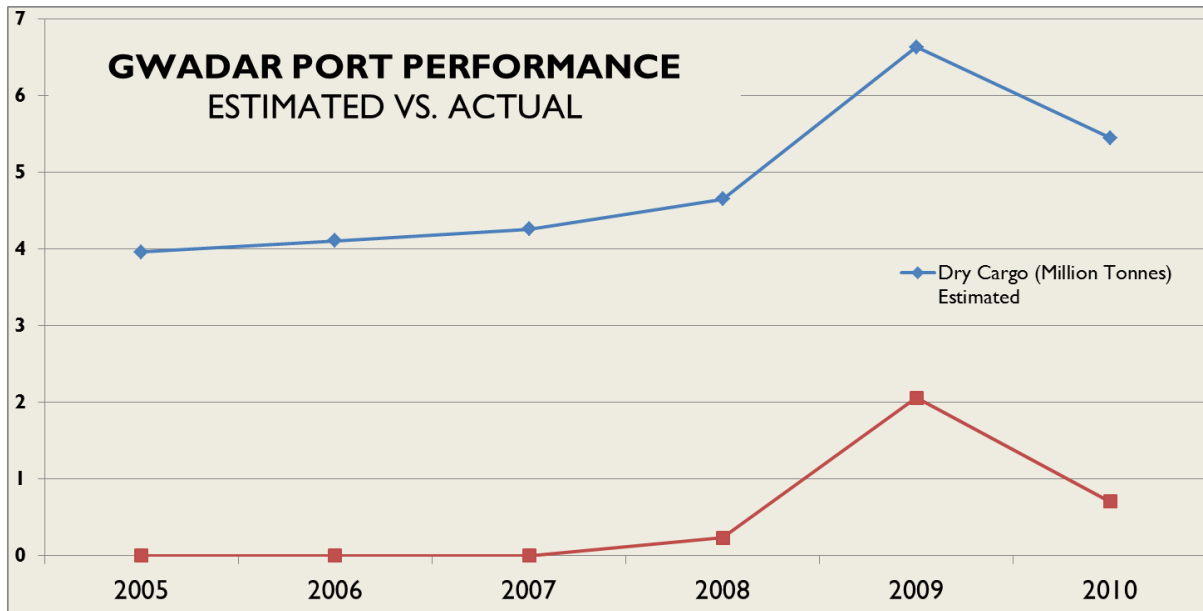
Figure X: Gwadar Port – Estimated Performance<sup>12</sup>

<sup>11</sup> Data for Figure obtained from multiple sources. Please refer to List of Figures near the beginning of the paper for data sources.

<sup>12</sup> Figure based on data obtained from (Hassan 2005).

*Data Source: (Hassan 2005)*

Whereas dry cargo shipment should have 3.7%, and liquid cargo, at least 1.09% year-over-year growth, an almost 8-time increase in dry cargo handling was witnessed, only to drop by almost 3 times the next year.



**Figure XI: Gwadar Port Performance – Estimated Vs. Actual<sup>13</sup>**

*Data Source: (Hassan 2005) / Economic Survey of Pakistan 2011 – Ministry of Finance*

From its inauguration to date, Gwadar port has only catered 2,286,781 tonnes of sugar, wheat and urea – hardly a 600,000 tonne per year average for the last 4 years. Furthermore, only dry cargo has been traded; liquid cargo, containers and transshipments are yet to be seen. The completely irregular and inconsistent performance of the port represents serious flaws in either policy or implementation.

Currently, Gwadar port is at a pause. No shipments are either arriving or departing from there. By the Pakistani people in general, Gwadar is highlighted to be President Musharraf's idea – the development seized as soon as the president departed from office. It is added by them that Gwadar could be a gem, lest it is handled properly. As far as the economic situation of the country now stands, along with the situation that has developed in Balochistan, Gwadar may be suspended indefinitely, citing that only some drastic changes in policies could slowly start things up there again.

Gwadar is suffering from several delays, and a serious absence of supporting infrastructure. Other formidable foreign direct investments (some of them being the biggest in Balochistan in its history) have also either been pulled out, or put at a pause. The port itself is at a pause as far

<sup>13</sup> Data for Figure obtained from [http://www.finance.gov.pk/survey/chapter\\_11/14-Transport.pdf](http://www.finance.gov.pk/survey/chapter_11/14-Transport.pdf).

as trade is concerned. None of the planned economic zones, export-processing zones, roads, rail networks or international airports are there; it has been half a decade since any further developments have been made.

An interview with Sikander Akram (Akram 2012) concluded that Gwadar is not a deep seaport in the true sense. It is the last one as far as ports are concerned in terms of depth, and this may not be untrue; it has been narrated that a lot of silt has been filled up in the dredges and the approach channels. Gwadar port has a depth of 14.5 meters and approach channel of 5 km, whereas the Port Muhammad Bin Qasim's "Kiamari Groyne" has a depth of 16 meters. Also highlighted earlier is that Gwadar, by international standards, is a much smaller port, even compared to its Pakistani counterparts. Recently, a 70,000 tonne cargo ship arrived at the port yet was unable to dock there. Smaller vessels were used to dispatch that cargo to the port. Gwadar's capacity has essentially been limited to 50,000 tonne of dead weight handling.

Pakistan's government has made several mistakes on the way to 'develop' Gwadar. It handed out licenses to unreliable port operators, sanctioned land unwittingly, failed to monitor port activities, making suspicious statements internationally and lost its focus in two years' time. The government does not depict any national interest in the port project, and has delayed resolutions of several issues indefinitely. The Baloch couldn't be any less interested, either: there are insurgents disrupting any favorable developments in Gwadar or Balochistan in general, and the Baloch are stirring up a freedom movement rather than being concerned about an economic future. For them, Gwadar is a step backward – not forward.

China, the much-anticipated godparent of the project, has decided to keep its deck of cards, seriously considering its next move in the game of Gwadar. Investments as well as contribution in development from the dragon's end has paused. The smell in the air of China's 'military' plans at Gwadar has also added to their vigilance.

Recent events in Pakistan have also been least supportive. With the country going through a very fragile phase of national and international conflicts as well as acts of terrorism, the situation for economic development and foreign investment has significantly reduced. There are no signs of the multi-billion dollar Arab or Chinese refineries or Mega-Oil cities as planned at least half a decade ago.

Pakistan cannot develop Gwadar on its own: it just doesn't have the resources. It is merely in the hands of international entities and foreign intervention to help realize the potential of the port and save such an important natural and strategic resource from going to utter waste.

## 15. GWADAR: REASONS FOR FAILURE

### 15.1. Running, Development and Maintenance

The biggest challenge to Gwadar is none other than the completion of the port, as planned. The port was cited to have been non-functional for at least a year after its inauguration (S. F.-e.-H. News 2008), Phase II, which has been in an indefinite delay, has seriously hampered the project, not to mention it triggering a bad image on the reputation of the stakeholders and the government on the whole.

Previous records have indicated that the port has been subject to several delays. This is clear from the fact when Director-General of the Gwadar Development Authority (GDA) Ahmad Bakhsh Lehri expressed in August 2007 that the port would be operational from September onwards – a milestone achieved, however, at least 15 months after (S. TV 2010).

None other than the Federal minister for Ports and Shipping himself, Mr. Qamaruzzaman Kaira highlighted back in 2008 that “the port wouldn’t be operational till at least 2011”, citing an absence of complimenting infrastructure; communication, network and utilities were not present (S. F.-e.-H. News 2008).

The government had suggested that a project monitoring unit be formed within the Ministry of Ports and Shipping, the dilemma with Pakistan on the whole is that for every issue (domestic, political or economic), the first step the government announces is the formation of a directly relevant task force. What unfortunately follows is the foundation of yet another ‘department within a department’ with commencement of perks and facilities to those assigned. Several expenditures follow with most being a product of a miniscule corruption expedition. The results are wastage of resources and lack of control and accountability, with eyes barely on the task the force is actually formed to resolve.

This is a clear illustration, apart from other factors influencing the project’s fate, of the government’s lack of interest and support for Gwadar. What is quite interesting to add is an incident cited by Captain Anwar Shah (Today 2012) who attended a meeting of the Economic Cooperation Organization (ECO) in Karachi on 19 November 2011. In his web article, he explained that the Turkish and Iranian delegations made very interesting and profound presentations while promoting their ports. However, the Pakistani participants could not benefit from the moment and did not promote the Gwadar port there. This makes it evident that neither the Government nor the Gwadar Port Authority has any department or system in place to handle the promotion activities related to the port, further denouncing all the hard work that has been put into the port, along with the potential of up to US\$ 1.8 Billion in planned developments (Today 2012).

The Gwadar Port Authority has also been cited not to be maintaining the port properly. The dredge of the draft approach channel that was 14 meters at the time of inauguration has filled up with silt due to stormy weather, which is now non-functional. Other issues are of the likes of the port suddenly ‘unable’ to allow huge vessels into the berth. Apparently, a huge vessel came in and had more dead weight tonnage than the designed capacity of the port’s berths (S. F.-e.-H.

News 2008). This refutes the port's apparent claim of having adequate facilities and capacities of supporting heavy vessels.

Ironically enough, Gwadar is left to carrying only government cargo of the TCP (Trading Corporation of Pakistan). Why it is even able to manage so, is due to heavy government subsidy. At around US\$ 29 per tonne, the cargo is costing at least six times of what it would cost if handled via either of the Karachi ports – an obvious policy flaw (Today 2012).

It has even been cited by (Lee 2011) that “only way to get business to Gwadar - for what purpose and to whose benefit it can only be imagined - was to divert cargo from Karachi”, further denouncing potential use of the port. The PSA failed to bring legitimate business to the Port, routing vessels “otherwise destined for the ports at Karachi” (Lee 2011).

It has also been sighted that the port until would not be self-sufficient in meeting maintenance funds till time the port is visited by at least 21 commercial ships each week, a figure impossible to reach with the current situation and acclaim of the port. For now, government funds are being used to meet the expenses (P. Today 2010).

## **15.2. PSA – Commitments Unfulfilled**

PSA has been highlighted as having exploited Gwadar for their own, taking it for the right (I. K. Times 2012).

The most foremost of the commitments the PSA had made was of investing up to US\$ 550 Million at Gwadar (I. H. News 2007) to further develop the port, a rather mouthwatering treat for the then-Government, which probably explains why they were blindfolded into handing over the lock and key of the port to them and “issuing NOCs to other non-existent private operators” (Tribune, The Express 2012). However, down the road, the Concession Agreement, or ‘the license to free trade’ or more so, ‘trade as you wish’ came as a heavy price for the Gwadar Port Authority since according to some, the PSA invested only US \$30 million, despite undertaking to invest at least US\$ 525 Million in 5 years at the time of the agreement (Lee 2011), (S. TV 2010).

It could not be more adequately clear with a newspaper citing the former chairperson of TCP bringing forth facts of how the PSA was ripping traders off with irrelevant costs, making Gwadar a dumb choice for any stakeholder, as compared to the two Karachi ports (W. H. Nation 2010). The report further emphasizes on PSA's misrepresentation and exploitation that puts shipping companies at the mercy of the PSA if trading through Gwadar, with both time and monetary losses for no better reason, eventually “having earned more money than the port authority itself” (I. K. Times 2012). Of 82 ships having anchored at Gwadar till 2010, not one was brought in by the PSA (S. TV 2010).

The PSA on the other hand, responds by highlighting that there are conflicting interesting with the ports of Karachi, and the resulting nuisance is being caused by elements aiming to disrupt PSA's operations. The PSA also highlighted that the government agreed to creating an adequate road network along with an industrial zone to help PSA benefit from the port, whereas none of those demands have been met so far (S. TV 2010).

Nevertheless, the Supreme Court did not hesitate to go the extent of “instructing the Gwadar Port Authority to cancel PSA's Concession Agreement”, making it highly unlikely that the PSA continues its operations for 40 years as previously planned (Lee 2011), (P. Today 2010). Some are even of the opinion that the government wants to clean the mess up and now looks up to China to transfer port operation rights to (Tribune, The Express 2012).

### **15.3. The Government's Role**

The government's lack of planning, or at least, the execution of the plan led to internal conflicts between institutions. For the last half decade, the government is in a dispute with the Pakistan navy, suggested to be a root cause of what went terribly wrong with the 40- year Concession Agreement the Port of Singapore Authority signed (Tribune, The Express 2012). Apparently, the marine force was sitting on an area of 582 hectares of land that was otherwise needed for further development. In July that year, the Ports and Shipping Minister Babar Khan Ghauri went on to the extent of hinting to a temporary closure of the port if the Navy refused to clear the area (Fazl-e-Haider 2009). The navy could reach to an agreement provided they are entitled “an equal area somewhere else in Gwadar” (Tribune, The Express 2012).

Iran's success of promoting and skillfully using its ports is often cited to help Pakistani authorities learn from their example (Tribune, The Express 2012). Most importantly highlighted is the fact that a free trade zone must be the primary emphasis, much like the other more popular ports in the region. Rather than working on actually beneficial projects, where a development plan by NESPAK has been provided, resources are being wasted for useless and non-productive side-projects.

An interesting finding has been highlighted that suggests that foreign investment would flow in for Gwadar primarily if the investors can sow what they can reap. If these investments are rendered irrelevant, and are depleted in developing infrastructure rather than serve business interests of the investor, they will not be interested in reaching down their pockets (Tribune, The Express 2012).

In February 2005, the government knocked the doors of the World Bank to provide financial support to Gwadar in form of Loans. Though the World Bank had their warmest wishes for Pakistan to proceed with the development of the port city, their gesture for support wasn't very promising. They instead hinted at the level of corruption in the country, and the resulting bad debts and unsatisfactory payback (Times 2005). The second phase of the port was to have been completed by 2010.

It has been several times highlighted that the Government should cancel the agreement with the PSA, with statements highlighting the same by officials ranging from the Gwadar Development Authority director to lawyers and other distantly related officials. On the other hand, the government also wants to reboot the otherwise ‘paused’ project of the port by calling in other handlers. Lately, when President Asif Ali Zardari met with Tajikistan's Ambassador to Pakistan, he also, among several other business propositions, offered the country to commence its trade via Gwadar port, suggesting a possibility of extended handling of the port. It probably is not too late for the government accepting their mishandling of the PSA deal, and they are looking out

for any other potential handlers to whom the port could be delegated to maintain and manage (I.-T. Nation 2012). This was also highlighted in earlier reports (Lee 2011).

#### **15.4. Hub Port: Gwadar's Blessing and Curse**

The implications that would apply to the port, must it expand its volume to the level of handling transshipment of the region is a blessing and a curse at the same time. At one end, it would significantly boost its strategic and economic importance, and on the other, such scale would be not even achievable, considering the many inherent obstacles that haunt the project. Handling such multiple instances of loading and offloading requires a very elaborate infrastructure. Specifically, this would require multiple berths, whereas as of now, only three berths are operational, courtesy of the first phase of the project. The second phase is still an unrealized dream, with no sign of commencement any time soon. Not only that, the port must provide cutthroat response in turn-around times, shipping footprint, storage facilities and mechanical and technical installations, coupled with an electronic and computer automated system second to none. At the same time, this efficiency is expected of the rest of the complimenting infrastructure, i.e. the road and rail network, and the airport. Unfortunately, the latter two are even more predated than the port, which makes Gwadar as another wild bet for foreign shipment detail, and thus, their owners (the Middle Eastern, Chinese, Central Asian, Iranian, Afghan and Indian). The absence of a complete and optimal package and complimenting infrastructure for catering shipments would also be adverse, rather than useful, increasing operational costs, and rendering the port useless and completely unattractive to international clients.

Unless utmost attention is paid to the completion of at least the planned activities at Gwadar and the accompanying infrastructure, the port's status of a hub for the region would be another short-lived sensation.

#### **15.5. The Airport**

Work on Gwadar's planned International standard airport has not even commenced, despite the relevant authorities having received in excess of US\$ 28 Million from Oman and the Pakistan government itself.

As is more than apparent from Qatar and the United Arab Emirates sensational and breathtaking infusion of their seaports with airports, the Gwadar Port Authority needs to ponder on how important it is to setup the airport, where it's loosing value by the day. Some independent economists have also highlighted that Gwadar airport could at least be used as a hub for refueling of connecting flights, which, according to them, could cause stir some competition with other airports in the region (Tribune 2011).

#### **15.6. Alternate Uses**

Some critics have suggested alternate use of the port, given the obstacles that Gwadar is facing in pursuing and otherwise difficult to achieve world-class port and industrial complex. They have suggested facilities for catering small vessel traffic i.e. ferries and speed boats. Citing the examples of a few other countries in the same gulf, they have highlighted that such underdeveloped ports can easily serve this miniscule traffic.



One critic, who had been working as a Marine Captain in the Iranian Shopping Lines subsidiary, Valfajre-8 Company, had witnessed the profitability of such use. The company whose example he cited was, at the time, “the largest operator in the Gulf”. Whereas a proposition was laid down for the use of Gwadar as a port hosting smaller vessels, the author adds that the lack of government’s feedback as well as the absence of investment led to no further development (Hashmi 1999).

In some cases, development has rather marched backwards than forwards. Such a disappointing case, though arguably due to other reasons, is witnessed in both the United Arab Emirates and China pulling the plugs on their Oil Refinery Investments at Gwadar (Lee 2011).

### **15.7. The Road Network**

(Hashmi 1999) highlighted at least 12 years ago that roads on the Makran coast should began immediately, with whatever resources we have available.

Apparently, the Makran Coastal highway was complete over 6 years ago. However, this primary road linking Gwadar to Karachi is now under jeopardy. The project was to be complete *in all aspects* yet the linkage to Iran and finishing of the road is still lacking. The highway is the most crucial road link to the port to both the western and the eastern border of Pakistan. Its incompleteness is a serious drawback for Gwadar’s sustainable operation. Not only that: recent cuts and varied distribution of budget to relevant authorities in Balochistan has dispersed concentration on the maintenance of other roads as well.

The National Highway Authority (NHA), the department that deals with road construction and maintenance of major Pakistani highways, showed serious grievances highlighting that the Makran Coastal Highway was delayed due serious to cuts in funds following the 2010 flood; US\$ 400 Million in 2009 were reduced to half the following year. Specifically talking of the Makran Coastal Highway, they informed that delay was also being caused as at least US\$ 22 Million were needed for the project, whereas the Government sanctioned only 3/4th of that requirement (I. K. Times 2012). It is also feared that “the provision of all of these road links is expected to cost several times more than the cost of the port itself” (Today 2012).

The National Highway Authority (NHA) also highlighted law and order problems in Balochistan, citing the killing of a contractor at the Makran Coastal Highway (I. K. Times 2012).

There are significant other issues involved with road transportation through Pakistani terrain, where roads are subject to flooding, through the Karakoram Range, landslides, and seismic activity (Collins 2011). Even if a road network link China’s Xinjiang province with Pakistan’s Gilgit-Baltistan region, the highway, whose highest point are at an altitude of 4,693 meters, remains closed between January and April, and is “vulnerable to landslides, not easily usable by large trucks” (Jaffrelot 2011). Such hazards could seriously disrupt traffic that is en route, and if nature doesn’t intervene, the people themselves do, blocking roads frequently due to different kinds of demands. A multitude of reasons for protests often block the Indus Highway, disrupting traffic and trade, which could have minor to major setbacks in land trade. Records have indicated the road being blocked for periods lasting even 6 hours (T. News, Indus Highway

blocked against non-provision of gas 2012) and (T. News, Protesters block Indus Highway 2010).

Not quite outside the realm of possibility are the rare insurgent activities that are carried out over these roads serving other agendas (Collins 2011).

### **15.8. The Rail Network**

Even if a railway network is up and running, there are several capacity constraints that are going to reduce the efficiency of the system. (Collins 2011) compared the nature of the terrain in northwestern Pakistan-China region with that of the United States; the throughput of locomotives on the tracks is reduced by at least 25%. Trains passing over to china would carry a payload of merely 2,000 tonnes because of the vertical climb. This translates to no more than 8.75 million tonnes of cargo a year, or “175,000 barrels of oil per day”. At least 3 to 4 tracks would have to be laid down in parallel to address estimated trade volume.

Back in 2005, the World Bank offered financial assistance to Pakistan Railways to extend the railways lines right up to Gwadar. Pakistan had plans to establish rail links with Afghanistan as well, and the Central Asian States, helping these land-locked countries to have better access to global trade via the warm waters of Pakistan. However, similar to other several plans of development, this support could never make it to anywhere other than the news (P. Tribune 2005).

Connecting the rail network of Pakistan with that of Central Asian countries, Iran, Afghanistan, and most importantly, China would be a serious advantage to trade from Gwadar. However, in the suggestion lies the biggest obstacle: the differences in the gauge sizes. The following are the gauge sizes of the tracks of the respective countries:

- **China**  
    > 1435 mm
- **Iran**  
    > 1435 mm
- **Kazakhstan**  
    > 1524 mm
- **Kirgizstan**  
    > 1524 mm
- **Pakistan**  
    > 1676 mm
- **Uzbekistan**  
    > 1524 mm

To adapt the rail network to a corresponding gauge-size is nothing less than impossible. Then there are further implications: the gauge size is not just some wild guess, but a precisely calculated measurement of all factors including terrain type, typical load and type of carriage. A third or fourth gauge could be installed, suggesting serious expenditure – an area in which Pakistan Railways (PR), the rail network department of the country, least excels.

News in 2011 of the PR dismissing all cargo cars, along with 11 engines and 115 passenger trains couldn't be any less reassuring. Only 15% of 540 locomotives were functional, along with less than half of 68 power coaches, and no air-conditioned coaches running any more on the tracks (Daily 2011). In a crisis as such as these, further development to support Gwadar would be last thing on anyone's mind.

Despite a few bailout attempts, the department still shut down trains – even the good ones. What is more interesting to note is that deficits would rather increase even more rapidly if the freight trains also cease movement – the segment that make a third of the total revenues. The most common understanding, one on a national level for that matter, is none other than corruption, bringing down the departments funds to run only a third of the trains they have. An insider highlighted that at the millennium, the department possessed 502 functional engines; a decade later, less than 1/5th are available (I. R. Today 2011).

With significant delays on major routes and closure on smaller, less important routes (T. News, Railways considering to get engines on rent from India 2011) the railways would do more damage than good to the Gwadar port project. The Railways department is finding it difficult to maintain what it already has for now, as it is; laying more multi-billion dollar railway links is an entirely another ballgame.

### **15.9. Corruption**

When the government approached the World Bank for Loans for development of Gwadar Port, they were instead faced criticism on the non-payments of the existing loans. The government however, argued that they had resolved corruption on the high level (Times 2005). Contrary to the government's stance, however, corruption has multiplied tenfold. In the last four years alone, figures of corruption and tax evasion have reached as high as US\$ 94 Billion (Abbasi 2012), a figure that would doesn't move a hair on a high-ranking government official, but brings shivers to the common person.

Sadly, Pakistan already ranks at the bottom of the Corruption Index list for 2011. Ranking at 134 out of 180 countries with an index of 2.5 (compared to New Zealand, which is at No. 1 with an index of 9.5), suggests that there has been no significant improvement in justice or national interests.

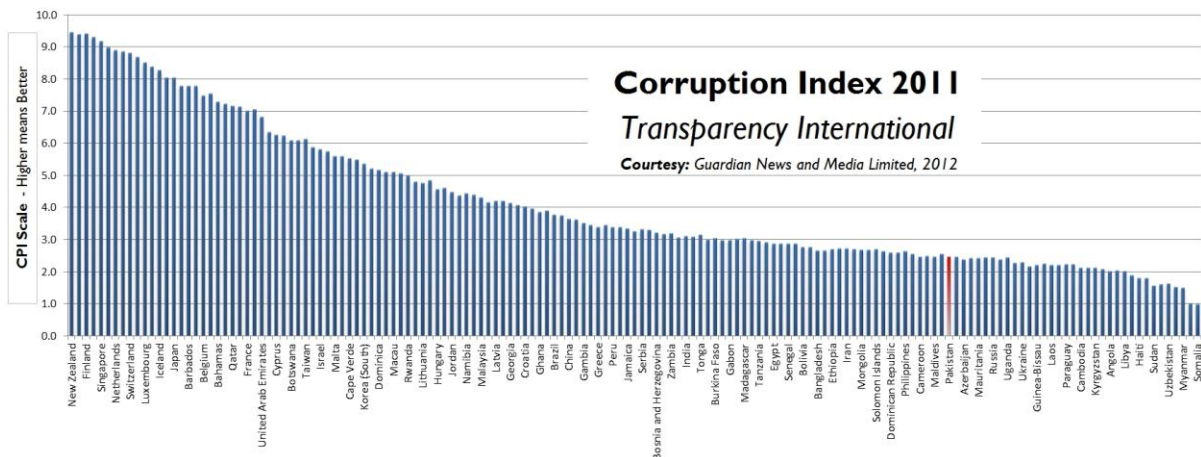


Figure XII: Corruption Scale Index 2011 – Transparency International<sup>14</sup>  
 Data Source: *The Guardian News and Media Limited*

### 15.10. Balochistan

Balochistan has always been haunted by the feudalism and control of tribal leaders in the area. There hasn't been any significant development there in years. It couldn't be any worse when neither the locals nor their leaders have the least bit of interest in the port project. The locals view it as an intrusion in their culture; the tribal lords see a serious threat to their monopolistic hold of the area. The Pakistani government has been criticized one too many times of using 'alternate methods' to keep the province intact with the rest of the country (Masood 2004).

One possible explanation for the Baloch having been overlooked could be the population of the province despite it being largest in size; six million people compared to the other 167 million<sup>15</sup> would obviously lack in presence, vocalization, and eventually, attention.

Hidden support of the United States for Balochistan's independence has not been undermined either, which would help weaken the federal system and forfeit Pakistan of an important asset to the extent of stirring up the same independence movement in Iranian Balochistan (Masood 2004). The Baloch Conference of North America in a meeting held a year ago even came up with a "declaration describing the horrors of the Pakistani occupation", apart from declaring Pakistan useless in the War on Terror, citing that they rather support terrorist elements (Lee 2011).

Balochistan has had continues conflicts and reservations with the rest of the country for decades now. The worst form of it is the banned terrorist organization that goes by the name of the Balochistan Liberation Army (BLA), active in both the Pakistani and Iranian Balochistan, with leaders including tribal leaders that are successors to the Bugti clan. The organization that carries out terrorist activities and operates in guerilla warfare manner. Comments on the motives or ideology of the organization would not be just, and are irrelevant to this particular study.

<sup>14</sup> Data for figure obtained from the Guardian /Transparency International. <http://www.guardian.co.uk/news/datablog/2011/dec/01/corruption-index-2011-transparency-international>. A few countries out the total of 180 for whom the data is available have been removed from the graph to make it legible for the reader's understanding. However, no changes to the integrity or conclusion of the data or values occurred by doing so.

<sup>15</sup> Population of Pakistan is around 173,590,000 (The World Bank 2012).

Nevertheless, the actions and behavior of the group has a detrimental effect to the sovereignty of the country as a whole.

In February 2011, Selig S. Harrison made recommendations to the United States, no less controversial for any Pakistani citizen. He suggested that the US stance should be to support anti-Islamist resources along southern Pakistan. While hinting that the support should be for Sufi groups in Sindh, the whole Baloch population should be supported by the US. According to him, the Baloch are awaiting independence from Pakistan (Harrison 2011). An independent Balochistan would serve as a valuable asset for Uncle Sam's strategic control over the nearby geographic region.

Balochistan is also a major victim of the Federally Administered Tribal Areas (FATA), as most usually, repercussions of any actions or happenings there influence both the NWFP and Balochistan province. The military operations against terrorism in the Waziristan agencies and the infamous US Drone Attacks are a common discussion in newspapers and economists alike, having serious implications for the locals.

Gwadar's international image and business interests are seriously damaged with the law and order, safety and integrity situation in Balochistan.

Initial talks of the development of Gwadar immediately followed with the Balochistan government less interested in foreign intervention and more in favor of local management and control. An obvious case is of Chief Minister Nawab Muhammad Aslam Raisani – chairperson of the Board of Directors of Gwadar Port – who, without wasting any time, showed his concerns of Chinese management over local consideration (Lee 2011). Cries of the Baloch people for having labor and jobs outsource instead (News 2008) were obvious when the first container docked at the port, and the Chief Minister witnessed outsourcing of labor (D. News 2008).

Rather than welcoming foreigners to help with development – the Chinese in this specific context, the Baloch are instead looking for avenues to expel them from the region, fearing it as yet another one of the countless attacks to their sovereignty. Peter Lee cited columnist Robert Kaplan (Lee 2011) having interviewed a Baloch who threatened that any further intervention in the area would be met with harsh consequences, completely dispelling the 'Dubai-like' development (Hassan 2005) that is intended by the Federal Government and the Chinese counterparts. It seems like the Baloch are neither bothered nor interested in any economic facelift, solely wanting to maintain the status quo.

### **15.11. Foreign Influence**

There have been instances of reports falling through that suggest that there are other national interests serving against the interest of Gwadar or any other development in Balochistan.

India and Russia are believed to be involved, directly or indirectly, in supporting the Baloch Liberation Army, with India so much as having set up at least nine (9) training camps along the border of Afghanistan. The claims further highlight that India, and the United Arab Emirates

(probably in the wake of the Gwadar port project) “were funding and arming the Baloch”. Even Russia is believed to be involved (Imtiaz 2010).

Even the then-president Musharraf requested the United States in 2007 to “intervene on the ‘deliberate’ attempt of Kabul and New Delhi to destabilize Balochistan” citing he had proof of Indian and afghan support for Baloch extremists, some even operating in Afghanistan (Imtiaz 2010).

## 15.12. China’s Alternate Stance

### 15.12.1. Feasibility Issues

Even though China and Pakistan’s trade alliance is growing at a good pace, realizing the true potential from the Gwadar port may not be the most economical for the Asian giant. Transporting oil and goods via its existing maritime routes would still be cheaper and safer for China, as is clearly evident in the following illustration (Collins 2011):



Figure XIII: Transportation Costs for Moving Oil from the Persian Gulf (via Chongqing, China vs. via Gwadar Port)<sup>16</sup>

<sup>16</sup> Figure obtained from <http://www.chinainpost.com/2010/12/still-a-pipedream-a-pakistan-to-china-rail-corridor-is-not-a-substitute-for-maritime-transport/>.

*Source: BNSF Railway, Bureau of Transportation Statistics, NBS, ND Petroleum Council, China SignPost*

If China is to use the railroad link through Pakistan's Khunjerab Pass, all the way from Gwadar to Karachi to Peshawar, right up to Xinjiang, a vertical climb of at least 15,000 feet may cost tenfold than the maritime counterpart China already uses. (Collins 2011) cite the example of the 2,000 km-long Qingzang railway to Lhasa, Tibet, the cost of which arrived at US\$ 1.85 million per km. A rail line connecting Pakistan with China is even a bigger, more expensive challenge, with at least 3,000 kilometers of track to be laid down, costing up to US\$ 30 million per kilometer at the highest points (Jaffrelot 2011). Calculation demonstrate it would cost China US\$ 2.22 per barrel to haul oil in from Ras al-Tanura through a predominantly sea-based route all the way through the Straits of Hormuz, to the tip of India, Malaysia, Indonesia right up to Taiwan. The same load routed through Gwadar would cost US\$ 8 to US\$ 12, with costs going even beyond for the more eastern destinations within China. The bottom-line would be similar for other commercial shippers, serving an economic disadvantage for all who would want to move through Gwadar (Collins 2011).

China also views the offer of being handed-over the port of Gwadar as a costly favor to Pakistan, apparently being asked to undo the damage the done by the PSA, no thanks to the Pakistani government's not-so-clever decision-making. The overall benefits of the port to China are finding trouble justifying themselves compared to the financial expenditures, hardships, sacrifices and the compromises the superpower may have to make (Lee 2011).

### ***15.12.2. Security and Safety Issues***

After the first case of three (3) Chinese engineers in May 2004 in Gwadar (Lee 2011), many Chinese nationals have been attacked, kidnapped and killed in the country, with more threats having followed thereafter. Situations put Chinese personnel's lives in jeopardy, and at the same time, embarrass the Asian giant, as was the case of 11 Chinese helicopter technicians in transit a 1,000 kilometers from Gwadar during an attack terrorist attack and US drone and military counterattack (Lee 2011).

### ***15.12.3. Military Implications***

It is not quite out of context that Chinese would have wanted to have Gwadar not only as an economic hub, but also as a potential control tower or base to have a better view off the waters of southern Pakistan.

However, Pakistan's Defense Minister Ahmed Mukhtar spilled the beans in 2011 during a visit to China by extending them an invitation to build and maintain a naval base at Gwadar (Reuters 2011). Ammad Hassan in his dissertation (Hassan 2005) that is a major inspiration to this paper, could not have been clearer in strongly emphasizing that no suggestions, implications or references be made to China for any military expedition at Gwadar – at the least, not in public. These instructions are at least five years old, seeming like the Pakistani authorities stayed quiet for years only to wait one senior defense official to whistle blow his own country's game plan half a decade later. The reaction was met with a severe backlash and denial by Chinese

authorities of any military-related interests at Gwadar or the nearby areas (G. Times 2011), (Dasgupta 2011). China's reactions were justified, considering such fragile international implications of the offer, the least favorable of them all being Osama Bin Laden's discovery and killing in Pakistan itself hardly two weeks earlier. China could not have been more concerned, and surely, this had put it in a tight spot, with the world suspecting evermore the superpower's affection for a country that is apparently 'Al-Qaeda's international safe house'. Equally discouraging was a Taliban attack on the Mehran Naval Base in Karachi that happened over the same week as Defense Minister's invitation - a few hundred kilometers from Gwadar. Whereas China was to emphasize on discouraging US military intervention in favor of economic and trade uprisings, the naval base theory pushed the Asian dragon back in its lair (Lee 2011).

### **15.13.Halt in Investment and Support**

A report in Business Recorder cited by Syed Fazl-e-Haider highlighted China informing Pakistan that its multi-billion dollar coastal oil refinery project along with a bigger Petrochemical City project at Gwadar had been written off their financial plans, contrary to previous agreements. The decision followed, China added, the lack of parallel infrastructure development at the city. A catalyst could have been a similar decision by the United Arab Emirates six-months ago. International Petroleum Investment Company (IPIC) of Abu-Dhabi in pursuit of building US\$ 5 billion Khalifa Coastal Refinery (KCR), announced in 2007. However, by 2009, they had done only one thing: changed the planned location to Hub in Balochistan – far away from Gwadar. Even afterwards, no work commenced in connection with the refinery, to the extent of the Pakistani government considering building a refinery elsewhere with the collaboration of another foreign company. The delay also put pressure on companies already operating refineries in the country to increase their capacity (Fazl-e-Haider 2009).

The previously planned US\$ 12.5 billion Mega-Oil project in Gwadar has therefore been compromised. Furthermore, this rings bells on China's similar considerations, of oil and gas pipelines and transportation of the same through Pakistani terrain (Fazl-e-Haider 2009).

(Lee 2011) cited an Indian source suggesting that "Gwadar is a failed commercial port – built with over US\$ 200 Million in unenthusiastic Chinese aid – in the middle of a wilderness that nobody visits", an very discomfoting opinion of a project that has discouraging implications. Few evidences do point in that direction, however, since lately, much work and development regarding the port has indeed been at a pause.

### **15.14.India's Role**

China is to Gwadar, as India is to Chabahar. Interestingly enough, a possible clash of civilizations could occur, however by the fact that India is also working on the assistance of a port project – none other than Iran's Port of Chabahar, hardly 70 km away from Gwadar. A 213-kilometer Zaranj-Dilaram road in Afghanistan's Nimroz province is ready, with the Chabahar-Milak-Zaranj-Dilaram route in progress, along with India's support for Chabahar-Milak railroad (Jaffrelot 2011).

India has hinted its fear of Pakistan's dominance in the Strait of Hormuz, must Gwadar be fully operational, a possible threat to Indian tankers (S. M. Reuters 2011). India even highlighted that



Chinese presence in the Arabian Sea would allow it to monitor Indian and US naval movements or any other mutual maritime activities (Jaffrelot 2011), though the Indian Navy's Rear Admiral added that a win-win strategy that could serve both countries could be a thriving and reassuring *modus operandi* (India 2008).

Also interesting to note is (Jaffrelot 2011) citing Robert Kaplan that Indians' response to Gwadar is another "US\$ \$8 billion naval base at Karwar, south of Goa on India's Arabian coast, the first phase of which opened in 2005".

Peter Lee has interpreted Pakistani scholar Hami Yusuf citing that the only way to ensure South Asian peace and prosperity is by normalizing relations between Pakistan and India. In a recent poll, Pakistanis regard India as a bigger threat (53%) than the Taliban (23%), (Lee 2011), necessitating the Pakistani people to make peace with their neighbor, must they have a better and welcoming economic position and an improved international integrity and image.

### **15.15.The US Agenda**

The United States has mostly been a silent spectator to the Gwadar project and the Balochistan situation on the whole, rarely assisting military operations, those too, that have more intrinsic value to their interests than the interests of Pakistan. It is not as if Pakistan didn't already ask the United States for their help first: the Nixon Administration didn't feel the need to undertake the development of Gwadar, or a naval base there (Jaffrelot 2011), so decades later, Pakistan asked China instead.

A few strategists have proposed an Independent Balochistan, suggesting that national sovereignty or economic prosperity of the people of Pakistan is not really their concern; the US only wants eradication of terrorism in the region – with or without Pakistan, doesn't really matter. The same is what they would say of the fate of the economy, harmony, prosperity, or even the existence of a Pakistan (Lee 2011); such indifference is a clear conflict of national interests.

It is quite possible that like other hidden foreign support to anti-Pakistani elements, the US contributes its equal share, on one hand to curb terrorism, and on the other that's under the table, to maintain a destabilized administration in the country. In the end, the US would be more in favor in an independent Balochistan than against it, due to its resources as well as prime access to Straits of Hormuz (Lee 2011).

## 16. FINDINGS

Is Gwadar an economic haven for Balochistan and Pakistan? The answer is: no, not yet. Commenced in 2002 and apparently complete by 2008, it has been at least half a decade since the port's existence. Gwadar has followed the financing methodology that theories suggest, and indeed, Foreign Direct Investment has been attracted – most of it from China - yet the port is still in infancy, almost completely in terms of trade volume. What should have been a fourth generation port, is finding it hard to operate even as a first generation one.

Gwadar port is currently in no position to follow Verhoeven's three-dimensional fourth generation port concept, since it lacks the primary components of being able to be assessed on that scale. There is an absence of value added services, and port operators and carriers have not been able to establish power or resulting business at the port, which also depicts a lack of theoretical application of strategies.

The Port of Jebel Ali and Port Zayed may be inspirational examples, but their location at the rich, tourist, capital-intensive and almost completely developed Abu-Dhabi and Dubai<sup>17</sup> makes them very different scenarios. Here at Gwadar, there is hardly any population, tourist attractions, residential locations or other international-level amenities.

Pakistan unfortunately suffers from lack of resources as well as technical and management capabilities; these curses often invite foreign assistance to handle situations, be it a company as huge as the nation's telephone carrier<sup>18</sup>, or a backward area with rural population. Gwadar is another example where the country looked for outside help to nurture, develop and nurse the port. More so, the 40-year lease agreement signed with the PSA is not going to be an easy reversal<sup>19</sup>, and is the primary obstacle in the port's halt of business activities.

The government has orchestrated an 'artificial demand' at the port. Where the PSA has been sighted to not have lived up to its commitments, the government couldn't have been less supportive. Routing cargo that is otherwise destined for Karachi's ports is a strategy that is neither economic nor sane by any means. On top of that, the government heavily subsidizes the cargo processed at Gwadar.

The miscalculation occurred by the Government's Gwadar Development Authority (GDA) of handing over the rights of the port to Port of Singapore Authority (PSA) which, in time, has

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<sup>17</sup> Given Abu Dhabi and Dubai's state-of-the-art infrastructures, airport, shopping malls, tourist attractions, numerous residential developments, financial and economic centers and the proximity of all these to the ports.

<sup>18</sup> A significant shareholding (26%) of PTCL was sold to United Arab Emirates's Etisalat (B. News 2005), apparently a move of privatization, expected to improve economic development and company performance.

<sup>19</sup> The case has been pending for the last 4 years.

proven not to be up to the mark. Despite the fact that port authorities are the victim to blame for lack of performance of the port, as theories suggest, most of the ports in competition with Gwadar discussed here in this paper are being managed by the local port authorities<sup>20</sup>, helping the countries overcome any territorial or operational control issues. Where privatization of ports in contemporary periods has garnered success and profitability for most modern ports, for Gwadar, the concept has worked adversely. It has established a lack of control, dilution of common and national interests, and conflict amongst stakeholders.

Whereas containerized trade is the modern standard, Gwadar port has witnessed ignorable traffic of containers. This is also contrary to standard trade practices, and implies lack of foresight of the operators and handlers of the port.

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<sup>20</sup> As highlighted in the competing ports of Oman, United Arab Emirates, Bahrain, Kuwait, Qatar and Iran, all of who have respective local port authorities to manage the ports.

## 17. RECOMMENDATIONS

As the port has been cited to hardly been moving any tonnage (Ahmed 2012), it is strongly recommended that the government take good control over a national asset as potent and important as Gwadar. ‘Purchasing’ Gwadar back from Oman was an important move and was necessary for national security; keeping it in an even better condition and optimally exploiting its potential is equally important. However, particular care should be taken when taking such steps, keeping an eagle’s eye on national interests as well national security.

The government should learn from these mistakes and create finely crafted business and technical propositions for future endeavors of Gwadar. A wiser business sense should be used to deal with the lack of popularity of the port. Spoon-feeding Gwadar at this stage of infancy would never let it grow in the long haul and be self-sufficient; the bailout is more of a slow poisoning. It is further emphasized that domestic cargo may continue to be handled at the Karachi ports, and only transshipments be handled at Gwadar.

Much of the current trade through the port is irrelevant and makes no sense. With upcoming oil, gas and mineral developments in Balochistan as well as its natural tendency to deal in the same<sup>21</sup>, is imperative that Gwadar also focus in the same direction.

Gwadar must focus primarily on transshipments – the civic centers and other lifestyle amenities would not serve well in the middle of a desert that is otherwise out of reach and out of sight (Lee 2011). Suggestions have also been made to cater smaller vessels, as in the successful case of Iran (Hashmi 1999). These would provide both promotion and trade. Additionally, having the infrastructure of a fourth generation port is important, but in order to sustain port operations and profitability, it is also important to relate them strongly with each other.

Military elements must be completely kept out of the Gwadar equation. Already the country is under strict surveillance and a prime suspect in most of the terrorist activities that take place the world over. It is strongly advisable to keep all weapons holstered at any table discussions. Gwadar’s strategic position can be exploited in that direction, but that must be pondered upon only in times of war.

Pakistan should also create harmony with neighboring economies like India and Afghanistan. Mutual benefits should be put before primitive, territorial, conflicted thinking. With gas-pipelines in development with these economies, bilateral trade and transshipments would help reiterate the need for Gwadar, which would probably follow with support. The three-dimensional fourth generation port concept also emphasizes on an optimal co-existence, with the participants working on a win-win strategy serving their common interests. Stakeholders of Gwadar port should inquire into common objectives, and, putting cultural or ideological differences aside, aim to sustain themselves in the ever-shrinking global business atmosphere.

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<sup>21</sup> Balochistan is a dry, barren province with proven mineral reserves. Additionally, most development there has been in oil refineries, mineral exploration, and most trade and processing would be of these products.

## 18. CONCLUSION

Gwadar is not yet an economic haven for Balochistan or Pakistan. The port is not yet completely developed in actual terms, yet it still is one of the major economic projects in Balochistan in decades. The port could cater transshipments and play an important role as a hub port in the energy corridor of the region. It could also give Balochistan a chance to replenish on lost identity and economy, and whereas it could be a military outpost for Pakistan, this is strongly discouraged.

Certain initial strategies stay true to theoretical implementations following the success of other major contemporary ports. However, it has failed to sustain itself in the long-term amidst the challenging globalized trade atmosphere. The project has had several issues – those within stakeholder's control, and those beyond it. It has been half a decade since Gwadar was made operational whereas investments in the port, its infrastructure, and supporting development zones that reached at least half a billion dollar mark are yet to witness any return. Multibillion-dollar commitments and plans have been washed out; others having been delayed indefinitely.

The need of the hour is that the Pakistani government and Baloch people join hands to make this avenue attractive once again, so that investments that were already in place could be realized, and newer attractions be created. The cases of successful ports in the not-too-distant past serve as standards and benchmarks, and the reasons for their success, and the relevant theoretical practices must be revisited.

The Pakistani government must play its due role to bring Gwadar to bear the fruits of what was anticipated. This also requires Pakistan to look at the bigger picture, which serves economic, cultural and profitable interests of the region, rather than individual and military ones.

All stakeholders, in their own capacity, should devise efficient, economic and intelligent ways to benefit from the port. Eventually, Gwadar could pay off many nations and countries.

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## **20. INFORMATION AND DATA SOURCES**

### **Information on Ports: Geographic Information, History and Relevant Details**

*Source:* World Port Source

<http://www.worldportsource.com/index.php>

Accessed April 21, 2012.

### **Population of Pakistan, 2012**

*Source:* The World Bank Data, 2012

<http://data.worldbank.org/country/pakistan>

Accessed April 15, 2012.

### **Performance of Gwadar Port – Shipping and Vessel Docking Information**

*Source:* Economic Survey of Pakistan 2011 – Ministry of Finance

(Transport & Communications - Attaullah Shah, Research Officer)

[http://www.finance.gov.pk/survey/chapter\\_11/14-Transport.pdf](http://www.finance.gov.pk/survey/chapter_11/14-Transport.pdf)