

# **The Trade Potential and Industrial Development in Gwadar**

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## **Abstract**

*The paper evaluates the prospects of trade, industrial development opportunities and their economic benefits through Gwadar Port. The importance of Port is manifold. Gwadar is not only going to play pivotal role in Pakistan's economy but is also likely to influence other neighboring countries like China, Iran, Central Asia etc. Gwadar, therefore, has importance not just for Pakistan but for the whole region. It is expected that Gwadar project will generate thousands of jobs for the local people due to which there will be revolutionary changes. The progress will be on different levels i.e. individual and family, city and society, province and the country at large.*

*Future competition of the ports within the region is also examined. Presently, there are neither industries at Gwadar nor any trade being routed through it. The volume of expected trade is, therefore, interpolated through economic trade trends of the areas surrounding the Gwadar Port and evaluation of its economic potential. The envisaged trade forecast of Gwadar Port is based on the potential transit cargo of Western China, Afghanistan and Central Asia in addition to flow of natural resources from Central Asia, transshipment cargo and the domestic cargo import/export. The development of industries, trade and business in adjoining areas are some of the spin-offs of the ports, which require appropriate policies to accrue maximum benefits, and are discussed in later portion of this chapter.*

## **Trade Potential**

### ***Global Trade Trends***

United Nations' Review of Maritime Transport (2006) reports, that the world merchant fleet expanded by 7.2% to reach 960.0 million deadweight tons (dwt) at the beginning of 2006. World container port traffic continued to expand at the rate of 12.6% during 2004, reaching 336.1 million Twenty-Foot Equivalent Units (TEUs). Ports of developing countries handled 137.0 million TEUs, or 40.7% of the total<sup>1</sup>. The same

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review of UN for 2004 indicated that the world container traffic of around 300 million TEUs is likely to be double by the year 2015<sup>2</sup>. The size of the world container fleet grew by 9% during 2005 to reach 21.6 million TEUs. World economic growth increased by 3.6% in 2005. The volume of world merchandise exports grew by 6%. World seaborne trade (goods loaded) recorded another consecutive annual increase, reaching a record of 7.11 billion tons. Global maritime trade growth is likely to continue to grow in the years ahead. Total maritime activities measured in ton-miles increased to 29,045 billion ton-miles, compared with 27,635 ton-miles in 2004<sup>3</sup>.

The aforementioned increasing volumes of sea-borne trade dictate extraordinary measures to all ports. Although almost all world ports are taking measures to embrace this additional trade demand but there is always a limitation to the extension of the port capacities, for which new ports are the answer. Particularly, the mammoth trades generated by economic growth of China, reviving economies of the South Asia and diversifying markets of the Middle East require additional ports in our region. However, presently there are no other new ports being built in this region and Gwadar Port has the opportunity to attract large trade volumes.

In the same context, it is essential to evaluate the world's growing energy needs. It is estimated that the demand of natural gas will continue to grow by 2.75% annually for the next 20 years. Crude oil seaborne shipments increased by 3.5% and the oil demands would remain unabated for many years<sup>4</sup>. Crude oil from Russian and landlocked countries around the Caspian Sea (Azerbaijan, Kazakhstan and Turkmenistan) have traditionally used pipelines connected to port facilities in the Black Sea for export to Western markets. However, the

seaborne traffic congestions in the Turkish Straits warrant the need for alternative routes.

Ever increasing requirements of global energy markets would need additional natural resources as well as alternative routes for their transportation. Natural resources of CARs gain importance in this regard and Gwadar Port is one of the possible routes for their access to world energy markets. Therefore, large volumes of natural resources are logically expected to flow through Gwadar Port, generating enormous revenues for Pakistan's economy.

### **Regional Trade Potential**

The estimations of trade through Gwadar Port with neighboring countries are discussed in ensuing paragraphs.

### **Trade Potential – Central Asian Republics**

The Caspian Sea is rich in oil and gas resources at an estimated US \$4 trillion. By 2050, Central Asia will account for more than 80% of the US oil. Gwadar Port is one of the shortest routes to access Central Asia's abundant oil and gas resources. Trans-Afghan Gas Pipeline (TAP) of 1,400 Km length from Turkmenistan to Gwadar can pump Turkmen natural gas to global markets. This ambition is, however, directly linked with stability in Afghanistan. The volumes of the proven and possible energy reserves of the Caspian Sea Region are listed in Table-1 on the next page.

As evident from the statistics that the Caspian Sea Region proven oil reserves between 17 and 49 billion barrels are comparable to the oil reserves of Qatar on the low end and to the United States on the high end. Similarly, the proven natural gas reserves are estimated at 232 trillion cubic feet, which are comparable to gas reserves of Saudi Arabia.

Therefore, the quantity of these reserves presents lucrative source to be tapped by the global energy markets.

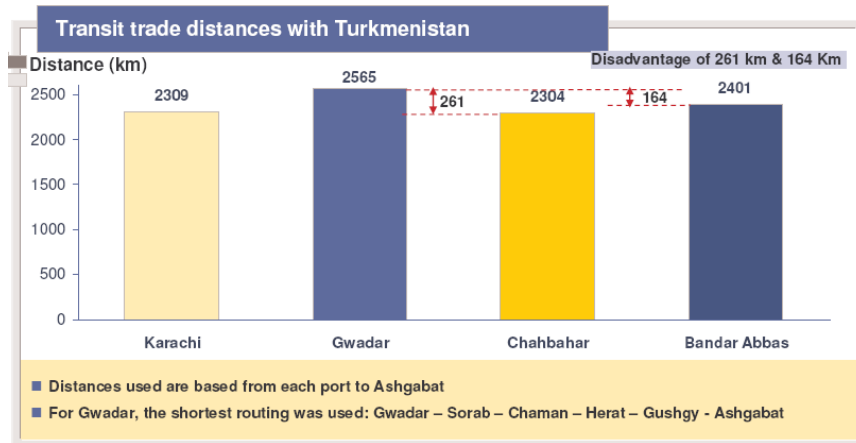
<b>OIL</b>						
Reserves (Billion Barrels)	<b>Country</b>	<b>Proven Oil Reserves</b>		<b>Possible</b>	<b>Total</b>	
		<b>Low</b>	<b>High</b>		<b>Low</b>	<b>High</b>
		Azerbaijan	7	7	32	39
	Kazakhstan	9	40	92	101	132
	Turkmenistan	0.55	1.7	38	38.55	39.7
	Uzbekistan	0.3	0.59	2	2.3	2.59
	<b>Total</b>	<b>16.85</b>	<b>49.29</b>	<b>164</b>	<b>180.85</b>	<b>213.29</b>
<b>GAS</b>						
Reserves (Trillion Cubic Feet)	<b>Country</b>	<b>Proven Reserves</b>	<b>Possible Reserves</b>	<b>Total Reserves</b>		
		Azerbaijan	30	35	65	
	Kazakhstan	65	88	153		
	Turkmenistan	71	159	230		
	Uzbekistan	66.2	35	101		
	<b>Total</b>	<b>232.2</b>	<b>317</b>	<b>549</b>		

*Table-1: Proven and Possible Reserves, Caspian Sea<sup>5,6</sup>*

Due to geographical location and proximity, Gwadar has three main competitors for transit trade with CAR i.e. Bandar Abbas, Chahbahar and Karachi. The distance advantages / disadvantages of Gwadar with each of these ports with respect to CARs are as follows:

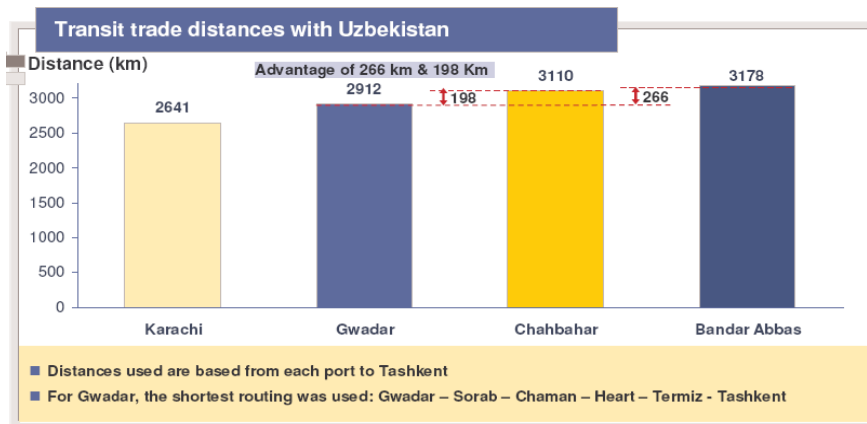
- a. **Turkmenistan:** Using the shortest routing road link from Gwadar to Ashgabat, Gwadar faces a distance disadvantage of about

261km and 164Km from *Chahbahar and Bandar Abbas respectively (Figure-4).*



**Transit trade distances with Turkmenistan**

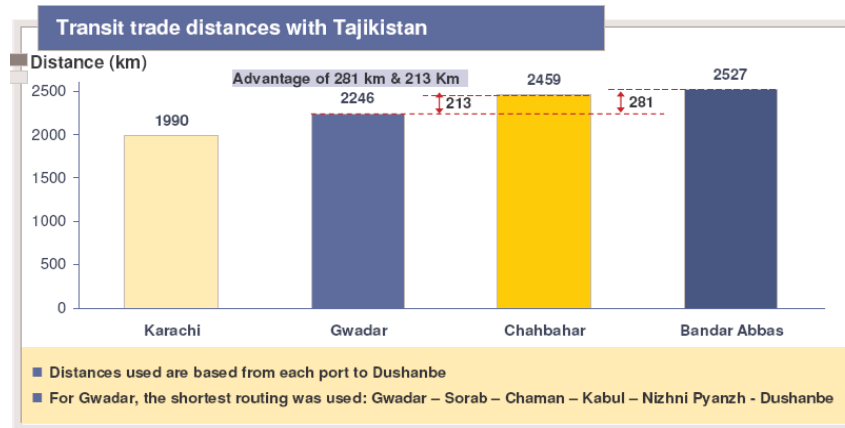
b. **Uzbekistan:** Using the shortest routing road link from Gwadar to Tashkent, Gwadar has a distance advantage of 266km and 198Km with Bandar Abbas and Chahbahar respectively (Figure-5).



**Transit trade distances with Uzbekistan**

c. **Tajikistan:** Using the shortest routing road link from Gwadar to Dushanbe, Gwadar has a distance advantage of 281km and

213Km with Bandar Abbas and Chahbahar respectively (Figure-6).



### Transit trade distances with Tajikistan

As highlighted, Gwadar is advantageously placed with respect to Uzbekistan and Tajikistan as compared to its competitor ports of Chahbahar and Bandar Abbas in the region. Karachi Port despite having distance advantage would not be a cause of concern it is operating close to its full capacity limit, if, therefore, Gwadar is the most viable option available with the Uzbekistan and Tajikistan as far as the distance is concerned.

The transit trade potential of CARs through Gwadar is as follows:

- a. **Uzbekistan:** Transit trade of Uzbekistan may come from imports and exports, mainly from/to East Asia. Potential transit imports of Uzbekistan through Pakistan are US \$ 161 million, whereas cotton exports, comprising the main export share, would be in direct competition with Pakistan.
- b. **Turkmenistan:** Transit trade with Turkmenistan is likely to be limited due to its established trade routes through the Caspian Sea.

- c. **Tajikistan:** Transit trade with Tajikistan will only be significant if Tajikistan diversifies its trading partners.

Optimistically assuming that in long terms, once the road links are established, Gwadar route is expected to offer quicker and cheaper transportation than the primary alternative i.e. the shipment of goods from South Asia through the Suez Canal and the Mediterranean and then into Black Sea port of Odessa in the Ukraine. This would increase the trade potential of CARs through Gwadar. Moreover, in the long run Gwadar Port could be an alternative route for supply of abundant oil and natural gas resources of CARs to the global markets.

#### **Trade Potential – China**

China's economic security depends on "Three Es," namely, Economic growth, Energy security, and Environmental protection. Energy, the key component of China's overall economic development and its dependence on oil imports is expected to rise to 50 per cent by 2010. Today China is consuming 12% of all world energy consumption, second to the US at 24%. China meets about 40% of its demand from imports and is the world's second largest oil importer<sup>7</sup>. About 60% of its energy supplies come from the Middle East - through the Strait of Hurmoz. By 2025, China is likely to import 75% of its oil which will be traversed through Indian Ocean and the Straits of Malacca, if no other alternative route is available.

As per China's Foreign Ministry, Saudi Arabia accounts for about 17% of China's imported oil. The Saudi Aramco is already in a joint venture with the ExxonMobile and the Sinopec to build a US \$3.6 billion refinery and petrochemical complex in China's Fujian province that will use the Saudi crude oil<sup>8</sup> imported through Eastern China's ports.

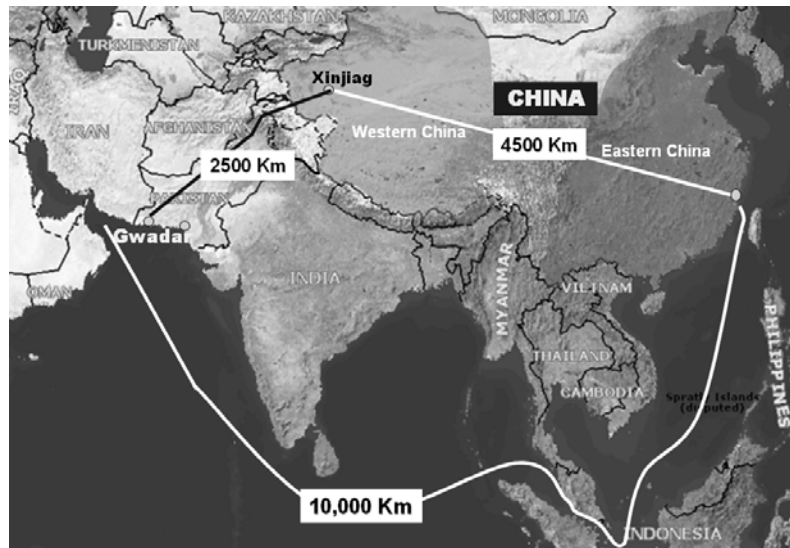
In order to meet its future energy demands, China has signed a number of agreements with its bordering Central Asian States for laying oil and gas pipelines ranging from 1,000Km to 3,000Km long, in addition to its inland pipe network of 4,200Km from Xinjiang to Shanghai<sup>9</sup>. However, China's main energy reliance would continue on oil from Middle East. Accordingly, China is taking interest in turning Gwadar into a transit terminal. In the long-term, a pipeline from Gwadar could funnel crude imports to Eastern China through Xinjiang.

In spite of the depth of Sino-Pakistani politico-military collaboration since the early 1960s, economic cooperation has been deficient in the past. In recent years, however, bilateral trade has steadily increased, with 37% rise to US \$2.84 billion during 2004-2005, out of which our exports to China were just US \$911 million while our imports were around US \$1.9 billion. Trade balance between the two countries is greatly in favour of China<sup>10</sup>. China has revived the land route through a series of bilateral agreements that call for an expansion of border trade and the implementation of a Preferential Trade Agreement. Meanwhile, China has also pledged to develop its western regions including Xinjiang as part of its "Go West" policy. Xinjiang has already demonstrated its economic potential by having registered US \$4.8 billion in foreign trade and US \$22.7 billion in GDP in 2003, which is 10.8% more from the previous year. Pakistan can capitalize on Xinjiang's rising fortunes and strengthen Sino-Pakistani economic ties<sup>11</sup>.

In pursuit to boost Pak-China commerce, President General Pervez Musharraf, while inaugurating the 10,000-feet high Sust dry port on 4 July 2006, said that the high-altitude facility near Pakistan-China border would bolster bilateral trade to new levels and also facilitate in realizing Pakistan's potential as hub of intra-regional trade<sup>12</sup>. He said the



state-of-the-art facility, an elaborated network of infrastructure being put in place across Pakistan and the improvement in Korakoram Highway, would provide China the shortest possible access to the Middle East and other world markets through Gwadar Port. The President said that the completion of KKH was hailed as the eighth wonder of the world and added that *"we are capable of creating 9<sup>th</sup> and 10<sup>th</sup> wonders in the form of railway and pipeline linkages between Pakistan and China."*



***Shortest Route from Western China to Gwadar***

It may therefore be logically visualized that Gwadar Port will be an integral part of the China's Foreign Trade route in future. The existing Karakoram Highway already connects Western China to Pakistan. With further expansion and upgrading of this traffic artery and proposed linkages to Gwadar via planned Ratodero - Khuzdar road, shall make it the shortest and viable route connecting Gwadar to Western China. In addition, the port will be complemented with a first-rate international airport capable of handling airbus service<sup>13</sup>. Establishment of an export processing zone and special incentives to Chinese companies would

enable the Chinese business community to diversify the port's stakeholders within China.

### **Trade Potential – Afghanistan**

Total trade flow between Pakistan and Afghanistan comprises 85% of all trade between Pakistan and the landlocked countries. Despite growth in trade volumes at a rate of 17.9% from 2000 to 2003, Afghan Transit Trade only generated 0.6% of Port traffic<sup>14</sup>. However, Afghanistan after having been placed on a path of development would be in desperate need of finding new avenues for boosting its economy. The country is full of untapped natural resources amongst them are the world's largest deposits of copper and large deposits of high-grade iron ore. Besides this, the country possesses unexploited reserves of oil, gas, coal and precious stones. Once the conditions in Afghanistan become conducive to full exploitation of this productive potential, it will trigger a formidable momentum of trade activity, which would need operationally feasible and economically viable sea trade routes.

### **Conclusions**

- Policies to create and maintain an investment-friendly and competitive business-climate may be implemented.
- Reliable power, water, gas supply, road/rail networks including airport may be ensured.
- Free zone facilities, warehousing, modern cargo handling equipment, IT systems etc. should be developed.
- Integrated port, industrial and city planning with a long term perspective may be ensured.
- Early industrial investments through aggressive and pro-active marketing may be ensured.

- Early implementation of six trigger projects to accelerate port and industrial development may be ensured.
- Construction of Gwadar - Ratodero road may be prioritized for linkage to Indus Highway for enabling early national import/export of cargo.
- A coordination forum should be formed, to facilitate institutional interaction of development authorities engaged in various developments.
- Gwadar port is strategically located at the cross roads of natural resources of the Middle East and Central Asia, a huge consumer market of Asia, The port is at the shortest route to the southern provinces of China. It is equipped with modern cargo handling facilities to meet the challenges of growing world trade. Economically booming China, stable Pakistan, and gradually opening consumer markets of Central Asia, will generate a substantial portion of world trade in near future. State-of-the-art cargo handling equipment, pro-active port management, aggressive marketing, efficient operations, minimum turn-around time coupled with favourable port tariffs, incentives and policies would enable Gwadar port to attract its due share of the regional transshipment market.
- Initially, the transit trade from landlocked countries will not be a significant cargo contributor. However in long term, once the linking road networks are in place, the transit trade potential would increase. Moreover, industrial development is a key driver to accelerate and sustain rapid development of Gwadar Port. Gwadar shows potential and will, in the longer term to, become an Industrial Powerhouse contributing to Pakistan's economy due to its inherent advantages

over its competitors in the region. Industrial development will in turn boost up the national import/export through Gwadar Port and strengthen the economy of the country.

- Gwadar is undergoing a massive and rapid socioeconomic change because of the developmental activities over the last four years. The demography of Gwadar is likely to experience a revolutionary transformation in next two decades mainly due to the influx of population from all over the country. The quantitative and qualitative edge of Gwadar's population will start playing its role after few decades. This will have direct impact not only on the development at Gwadar but also on its potential to shape the political landscape at provincial and national levels. Besides, the increased population will pose challenges to the administration for infrastructure enhancement and maintenance. In short, the demography will create new currents of change which are to be harnessed/blended/directed properly in time to achieve national harmony and integration along with the economic prosperity for the country & province in general and for Gwadar district in particular.

**End Notes:**

- <sup>1</sup> United Nations Conference on Trade and Development (UNCTAD), “Review of Maritime Transport – 2006”, <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=3969&lang=1> (accessed 29 December 2006)
- <sup>2</sup> United Nations Conference on Trade and Development (UNCTAD), “Review of Maritime Transport – 2004”, [http://www.unctad.org/en/docs/rmt2004\\_en.pdf](http://www.unctad.org/en/docs/rmt2004_en.pdf) (accessed 29 December 2006)
- <sup>3</sup> United Nations Conference on Trade and Development (UNCTAD) “Review of Maritime Transport – 2006”, <http://www.unctad.org/Templates/WebFlyer.asp?intItemID=3969&lang=1> (accessed 30 December 2006)
- <sup>4</sup> United Nations Conference on Trade and Development (UNCTAD), “Review of Maritime Transport – 2004”, [http://www.unctad.org/en/docs/rmt2004\\_en.pdf](http://www.unctad.org/en/docs/rmt2004_en.pdf) (accessed 29 December 2006)
- <sup>5</sup> U.S. Energy Information Administration, “Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts July 2006”, <http://www.eia.doe.gov/emeu/cabs/Caspian/SummaryTables.html> (accessed 30 December 2006)
- <sup>6</sup> Ariel Cohen, Ph.D, “U.S. Interests and Central Asia Energy Security”, [http://209.85.165.104/search?q=cache:3S8CMM2FRqgJ:www.heritage.org/Research/RussiaandEurasia/upload/bg\\_1984.pdf+caspian\\_balances.pdf&hl=en&ct=clnk&cd=1](http://209.85.165.104/search?q=cache:3S8CMM2FRqgJ:www.heritage.org/Research/RussiaandEurasia/upload/bg_1984.pdf+caspian_balances.pdf&hl=en&ct=clnk&cd=1) (accessed 30 December 2006)
- <sup>7</sup> Dr Zahid Anwar, “China’s quest for Central Asian hydrocarbons”, Dawn, 25 Dec 2006, <http://www.dawn.com/2006/12/25/ebr10.htm> (accessed 25 Dec 2006)
- <sup>8</sup> *ibid*
- <sup>9</sup> *ibid*
- <sup>10</sup> Government of Pakistan Board of Investment, “Brief on China-2006”, [http://www.pakboi.gov.pk/Country\\_Brief/China.pdf](http://www.pakboi.gov.pk/Country_Brief/China.pdf)
- <sup>11</sup> Baluchis, Beijing, and Pakistan’s Gwadar Port Ziad Haider, [www.stimson.org/southasia/pdf/GWADAR.pdf](http://www.stimson.org/southasia/pdf/GWADAR.pdf)
- <sup>12</sup> Dawn, July 4, 2006

<sup>13</sup> “Gwadar: China's Naval Outpost on the Indian Ocean” Tarique Niazi, The Jamestown Foundation, China Brief 2/28/2005, <http://www.asianresearch.org/articles/2528.html>

<sup>14</sup> Gwadar Port Master Plan Repot by M/s Arthur D. Little