



## China's Access to Gwadar Port: Strategic Implications and Options for India

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### ABSTRACT

Since the establishment of diplomatic relations in 1951, Pakistan's desire for strategic parity with India and China's efforts to propel Pakistan as a strategic balancer to India have been the overarching factors for the emergence of a security centric Sino-Pak relationship. Over the years, it has diversified into an economic-centric relationship. Although military and technological transactions continue to dominate the economic relationship, China began gradually pledging increased investment in Pakistan's economy and infrastructure. China became the primary investor for building the Gwadar deep-sea port in 2002. Both sides signed a free trade agreement and agreed to link China's rail network to Gwadar Port through the Karakoram Highway in 2008. The commitment to develop Gwadar Port is a good indicator of the steady expansion of Chinese maritime interests and strategic influence in India's neighbourhood.

This paper attempts to analyse the significance and implications of the development of Gwadar Port for Pakistan, India and the region as a whole.

### Introduction

China's strategic relations with Pakistan have been strengthened by volunteering to develop the Gwadar Port, to boost Pakistan's regional prominence. It became the primary investor for building the Gwadar deep-sea port in 2002. Both sides signed a free trade agreement and agreed to link China's rail network to Gwadar Port through the Karakoram Highway (KKH) in 2008. The management of Gwadar Port was handed over to Chinese Overseas Port Holdings in 2013; it had previously been managed by Singapore's PSA International. During President Xi Jinping's visit to Pakistan in 2015, China's Belt and Road initiative was also aligned with CPEC-related projects in Pakistan to be constructed under the Silk Road Fund.

The China-Pakistan Economic Corridor (CPEC) is an important component of President Xi Jinping's Belt and Road initiative. When completed, the 2400-km corridor will provide seamless connectivity from Kashgar in China's restive northwest province, Xinjiang, to Gwadar in Pakistan's restive southwest province, Balochistan. The commitment to develop Gwadar Port is a good indicator of the steady expansion of Chinese maritime interests and strategic influence in India's neighbourhood.

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## Relevance of Gwadar Port

Gwadar Port bears great strategic and economic significance for Pakistan. It is the third most important deep-sea port of Pakistan, after Karachi and Qasim. It is located at the junction of international sea shipping and oil trade routes. Hence, the port would connect three regions – Central Asia, South Asia and West Asia.

The port provides China with a powerful strategic foothold in the Arabian Sea and also the Indian Ocean. This could have regional implications in the long run. It will also place the Pakistan Navy in a very strong position and may further strengthen its capabilities. The port, besides being a corridor for trade to and from its docks, can potentially generate at least two million jobs for the people of Balochistan alone.<sup>1</sup>

Separately, Gwadar Port will help Pakistan monitor the sea lines of communications (SLOCs) originating from the Persian Gulf and the Strait of Hormuz. It will provide strategic leverage to Pakistan vis-à-vis India, as the port is far from Indian reach as compared to the other two Pakistani ports. While leveraging its position, Gwadar Port will boost cooperation between Pakistan and other countries in the oil and energy sector. Tourism, trade, the hotel industry and state revenue will increase, which will further strengthen the country's economy. The port also offers tax-free investments and trade, thus attracting large number of foreign investors to initiate new development projects and economic investments.

Asia has the highest number of landlocked countries, and from a geopolitical perspective their access to the sea is difficult and expensive. For example, China's hinterland is at least 5000 km away from its coastal regions. Through CPEC, China would drastically cut down the distance to the nearest port for its westernmost provinces, as Kashgar is 4500 km from the Shanghai port whereas Gwadar Port is only 2800 km away. Gwadar Port would provide China with access to Afghanistan and the Central Asian Republics (CARs). Due to China's Gwadar would provide an alternate route to the Indian Ocean or the South China Sea.<sup>2</sup>

Gwadar is also significant for other countries in the region such as Turkmenistan, which possesses large volumes of natural gas and oil but, being a landlocked nation, cannot derive benefit from its natural assets. The Trans Afghan Gas Pipeline (TAP) from Turkmenistan to Gwadar, the long-dormant project intended to pump Turkmen natural gas to markets in South Asia, is now ready. Kazakhstan too has a lot of oil but no means to access the international markets. A pipeline is also planned to transport its oil to Gwadar and subsequently the rest of the world. Additionally, recent interest shown by various international companies including Shell in setting up a mega oil refinery in the area, and the interest of UAE business groups in Gwadar, are important developments in this context. The UAE has committed to invest US\$ 30 billion, with a further understanding of US\$ 60 billion to build hotels, resorts and recreation centres in Gwadar. Other Arab countries are expected to announce plans in the area.<sup>3</sup>

## Development of Gwadar Port

Gwadar Port was constructed in two phases, with the technical and financial assistance of China. The construction of Gwadar Port started in March 2002 after the Chinese decided to provide US\$ 198 million of the total US\$ 248 million required for the first phase of the port. The first phase involved the construction of three multipurpose ship berths. The

development work on Phase II was formally estimated at US\$ 600 million, including the construction of nine additional berths, one bulk cargo terminal, one grain terminal and two oil terminals.<sup>4</sup>

China's Harbour Engineering Company undertook this joint venture at an initial cost of US\$ 300 million. Pakistan had to pay US\$ 50 million, and the remaining amount was to be paid by China. The project was leased to the Port Singapore Authority. US companies were competitive in providing the port with cranes and crane components, forklifts, tractor and trailer units, an unloading system, a conveyor system, and security and environmental equipment. As per the Memorandum of Understanding between China, Pakistan and CARs, there is a plan to develop communication infrastructure from the Caspian Sea in the west to Xinjiang in the east, converging at Gwadar Port in the south.

### **What does Gwadar Port mean to China?**

China is concerned about the growing Indian naval power in the Indian Ocean and the Arabian Sea. Moreover, the cordiality and warmth in Indo-US relations since the conclusion of their civilian nuclear cooperation on one hand, and cooperation between India and Iran in Afghanistan and Central Asia on the other hand, are a matter of concern for China's longstanding strategic and economic objectives in the region. India's dual approach – to encircle Pakistan by establishing good relations with Iran and Afghanistan, and to counter China's economic and strategic planning – forced China to use Pakistan diplomatically against India. As history suggests, Pakistan cannot outperform India alone.

Pakistan needs active Chinese cooperation in the port of Gwadar, since it is the only port which can serve the best interests of both China and Pakistan in the region. The port will, therefore, enable China to keep a watch on India's growing influence in the Indian Ocean, the Arabian Sea, and the Persian Gulf. Hence, the possibility of any future economic and military collaboration between India and the US in the region can be effectively dealt with.<sup>5</sup>

Other economic and strategic leverage that China attaches to the port includes the following:

1. China is heavily dependent on the oil from the Persian Gulf. At present its energy supply chains pass via a very long route, through the Straits of Malacca. After this oil reaches Shanghai, on the east coast of China, it has to be transported thousands of miles over land to the western provinces of China. A route using Gwadar Port and the KKH is relatively cheaper and shorter.
2. West Asia is an important region for China because of its huge oil and natural gas imports from the region. The government of Pakistan has committed to provide a naval base to China at Gwadar. This will not only help secure Gwadar Port but will also take the "all-weather" friendship between China and Pakistan to new heights,<sup>6</sup> and give China a foothold to influence developments in the region.
3. China will greatly benefit from the industrial zone by setting up industries close to the markets.<sup>7</sup> Moreover, Gwadar will potentially provide China with a strategic pivot that could also be used for military purposes to gradually challenge US dominance over China's energy supply routes.

4. Gwadar provides China a transit terminal for crude-oil imports from Iran and Africa to China's Xinjiang province. Gwadar's strategic advantage to China is due to its close proximity to the Strait of Hormuz. The presence of US forces in the region poses a threat not only to Chinese navy but also to its strategic commercial interest.<sup>8</sup>

It is also vital to understand the Chinese commitments, which are indicative of the importance that China attaches to Gwadar. The following are the major commitments of China towards Gwadar:

1. China has been instrumental in designing the project. It is also providing approximately 80% of the cost of Gwadar Port in the shape of grants and soft loans. Over 500 Chinese workers have worked on the project on a 24-hour basis to complete the port setup. There are still a large number of Chinese workers and engineers working on the project.
2. China has further committed to provide money and resources as and when needed.
3. China is setting up a dry port at the Sino-Pak border to take advantage of the shorter route to the sea through Gwadar.
4. China has paid US\$ 360 million to Pakistan for expansion and upgrading of all weather trafficability of KKH linking Pakistan with China. The contract for this has been awarded to the Frontier Works Organization, which has started the project.
5. Feasibility and engineering studies to connect China with Gwadar through pipeline and railway track have already begun. This railway track also has the significance of being an engineering marvel of the world.<sup>9</sup> Hence, sufficient resources have been spent on studying the feasibility of the port.

## Security of Chinese Interests

China's security concerns with respect to CPEC are significant, particularly due to the disturbance caused by militant groups, in its restive western region of Xinjiang. These concerns have a direct impact on the project, and on Xinjiang's ethnic Uighur and predominantly Muslim community. Beijing's attempts to place pressure on the Uighur community have not yielded positive results, but have led to reactionary political violence. This in turn incriminates Pakistan, because Uighur militant groups, like the East Turkestan Islamic Movement (ETIM), seek sanctuary in the Pakistan-Afghanistan border areas. ETIM also has established links with al-Qaeda and the Taliban (and its affiliates) in Afghanistan and Pakistan. The militant groups share operational capabilities with each other. China perceives the ETIM as an obstinate threat, inimical to the Chinese state, and attacking Chinese interests in Pakistan.

The CPEC therefore showcases China's efforts to deliver security under the garb of economic development. The Chinese are trying to sell their investments in Pakistan through promises and propaganda, viz. creation of jobs, reduction in anti-state sentiment, and improvement in the law and order situation. However, China's real motive behind this strategic project seems to be targeted at the militant threat in adjacent Pakistan. China is attempting to secure its own territory. Hence, while CPEC is often represented as an economic initiative focused on infrastructure, transportation and energy, security concerns will likely constrain the free flow of men and material, at least in the near future.

The leadership of Pakistan, both civilian and military, is making the most of the economic, political and security opportunities that CPEC offers. The volatile security environment in Pakistan has resulted in minuscule foreign investment, which the country needs in massive amounts to stimulate its economic growth. China's promised investment, if delivered, will represent more than twice the amount of all foreign direct investment (FDI) in Pakistan since 2008.<sup>10</sup>

Key Chinese concerns on Gwadar-related projects include:

1. China's major concern of safety and security is in its Gwadar Port project in Balochistan, through which China wants to have access to the Arabian Sea. Hence, Gwadar Port has managed by the China Overseas Port Holding Company since February 18, 2013.
2. Chinese concerns also include the delay in the deployment of the Special Security Division (SSD) by Pakistan for the CPEC. Plans for operationalising the division have been held up by Pakistan's civil-military wrangling. It is feared that the issue, if not resolved at the earliest opportunity, could potentially affect the timelines of other projects under the CPEC.
3. The security and safety of over 14,321 Chinese engineers and technicians working in various parts of Pakistan on 210 Chinese-aided small and mega projects, particularly in Gwadar, Balochistan, has remained a matter of concern to Pakistan as well as to the Chinese authorities.

To test the security of the CPEC, on November 13, 2016, a cargo ship carrying 60 containers left the dusty port of Gwadar in Balochistan, on the Arabian Sea, for the Gulf of Aden. The 60 containers had left Kashgar on October 29, 2016, and were loaded on 125 trucks before making the perilous journey on the KKH. The convoy crossed the Khunjerab Pass into Pakistan-occupied Kashmir (PoK), before travelling to Quetta. This marked the first-ever shipment through the CPEC.<sup>11</sup> Subsequently, in December 2016, the Pakistan Navy unveiled a special Task Force (TF)-88 commissioned for the protection of the Gwadar deep-sea port. The TF-88 comprises warships, attack helicopters, unmanned aerial vehicles and other surveillance assets. Earlier, it also raised a Coastal Security and Harbour Defence Force for tackling threats along the coast, and stationed a Force Protection Battalion at Gwadar for the protection of Chinese workers. The establishment of TF-88 and associated security apparatus marks intensifying China-Pakistan maritime and naval cooperation.<sup>12</sup> Further, recent media reports have indicated that China is set to increase the number of its marine corps from 20,000 to 1 lakh as part of plans to deploy them overseas for the first time, including at the strategic Gwadar Port in Pakistan and the military logistics base in Djibouti in the Indian Ocean. The expansion is planned to safeguard China's maritime lifelines and its growing interests overseas.<sup>13</sup>

### **Implications for Pakistan**

Gwadar Port has enormous strategic advantage for Pakistan too. It provides Pakistan with strategic depth vis-à-vis India in the Arabian Sea. A strong Indian Navy and its presence in the Arabian Sea pose a threat to Pakistan's security. Besides, the development of Gwadar Port will be a boon to Pakistan's economy. It is said that CPEC investments are expected to exceed all FDI in Pakistan since 1970. Over 7 lakh direct jobs are likely to be created by the project in Pakistan.

Pakistan needs the active support and cooperation of China. Thus, Gwadar Port serves an ideal place from the point of view of Sino–Pak naval collaboration to check and monitor Indian expansionist designs in the Arabian Sea and Persian Gulf. The strategic partnership between the two countries is a major development in this regard, by which China has committed to provide Pakistan military hardware. Pakistan also received Chinese naval assets including Type 054A-based frigates and air-independent propulsion (AIP)-capable submarines. Previously, Pakistan had signed a US\$ 600 million defence deal with China, which includes the construction of four F-22P frigates for the Pakistani navy, upgrading of the Gwadar and Karachi dockyards, and transfer of technology for indigenous production of warships.<sup>14</sup>

Much would depend on the security situation along the proposed CPEC corridor. The Western Corridor of CPEC, which connects Gwadar with Kashgar, runs through the troubled region of Balochistan, Khyber-Pakhtunkhwa and the Federally Administered Tribal Areas (FATA) of Pakistan. The viability of this project is also subject to the connectivity between Gwadar and Kashgar, since the Senate Committee of the Pakistan Parliament is of the view that the width of the KKH is not adequate to cater to the envisaged traffic volume that would be generated by the CPEC.<sup>15</sup> Though the CPEC is expected to address this inadequacy, the KKH passes thought terrain that may not be ideally suited to handle heavy traffic.

Even though the first phase of Gwadar was completed in 2007, the operations of this port are far below its optimum cargo-handling capacity. Thus, the biggest challenge for Pakistan will be in ensuring that this port handles the required minimum traffic, in order to be financially viable. For Pakistan, given the fact that its economic and population centres are far from Gwadar, the role of China is even more important. As a result of this paradox, the viability of Gwadar will largely be dictated not by the internal traffic generated within Pakistan but by that of the international trade route between the Arabian Sea and China.

Lying in close proximity, Gwadar Port provides a golden opportunity to Pakistan to intensify trade and commercial relations with the CARs, which contain the world's largest oil and gas resources. The construction of the new Gwadar deep-sea port on Balochistan coast and its connected routes with Afghanistan actually reduce these distances by 500 km between Pakistan and Central Asia. As a result, it will further facilitate the transfer of Central Asia's vast energy resources into the world markets, thus providing Pakistan with significant profits in transit fees.<sup>16</sup>

## **Strategic Options for India**

India's strategic interests in the region make it essential to develop clear policies, capable of facing existing as well as potential challenges that may arise in the future.

India could follow up on the work of developing an alternative trade corridor via Iran. On September 12, 2000, India signed an agreement with Iran and Russia for the development of the International North–South Transport Corridor (INSTC). This corridor will enable the movement of goods from Indian ports to Bandar Abbas in Iran and then on to Central Asia via rail and road linkages and the Caspian Sea route, bypassing Pakistan.<sup>17</sup> Chabahar provides India an easier land–sea route to Afghanistan, with whom it has fostered close security cooperation and economic interests over the years. India's

commitment to Chabahar connectivity will improve road as well as maritime connectivity, giving a boost to trade relations. Chabahar Port, once fully developed, will provide landlocked Afghanistan an alternative port/infrastructure and linkage, via Iran, to that of Pakistan; and India will gain full-fledged cargo-handling facilities on a large scale in the Gulf of Oman. All three countries will acquire both terrestrial and marine trade access to each other, the extant oil and gas resources, and other nearby countries of Arabia, plus the resource-rich Central Asian countries.<sup>18</sup>

India should showcase its robust policy on PoK, where it ensures that China addresses the breach of its sovereign territory. The strategy should go beyond building partnerships with the US in the Asia-Pacific. The CPEC in a way legitimises Pakistan's ownership over PoK. India should pose its concerns to the international community, on how, in the guise of securing CPEC, China can permanently position troops on Pakistan soil not too far from Indian border.

India needs to work on its own counter-strategy by offering a plan for a direct India-China Silk Route Corridor (ICSRC) that could run along the traditional Ladakh-Xinjiang axis. A shift in thinking can no longer be put off, for it would mean not just breaking the connectivity bottlenecks but finding interlocking economic interests for India's northern states.<sup>19</sup> It could serve multiple interconnecting advantages for India, from infrastructure building to buying a guarantee against Chinese misadventures.

## Conclusion

The CPEC sets the stage for China to wield preeminent economic, military and diplomatic influence in Pakistan. The agreement for Chinese companies to construct 51 Chinese-aided infrastructure, energy and military projects shows that Beijing's engagement with Pakistan is for the foreseeable long term. It seeks to bind Pakistan to China as power generation, transport, commerce, research and development and the defence of Pakistan will all be increasingly tied to Chinese investment and interests.

The CPEC runs through the PoK territory, which is India's sovereign land. For India, this is the primary concern about CPEC, and therefore the port of Gwadar will soon add to the unresolved issues between India and Pakistan. Chinese indifference towards Indian concerns and Chinese investments in PoK are serious irritants to India. However, it must be noted that this is not the first time that China has invested in or undertaken major projects in PoK.<sup>20</sup> The Chinese-controlled and -monitored base in Gwadar is a serious threat to India's maritime interest and predominance in the region. It may also be said that the steady expansion of China's activities is intended to shift the current naval balance of power in the Indian Ocean region. The presence of an extra-regional power in its backyard has security implications for India. With Iran and Russia announcing their desire to join the CPEC to access Gwadar Port, it is pertinent for India to respond to the changing maritime balance in South Asia.<sup>21</sup>

## Disclaimer

The views expressed/discussed in this paper are for the purpose of generating an informed discussion and do not necessarily reflect the official policy of the Ministry of External Affairs on the subject.

## Notes

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