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**THESIS**

**ASSESSING THE COMMERCIAL AND DUAL-USE  
VIABILITY OF PAKISTAN'S GWADAR PORT**

by

Joseph B. McGinnis

March 2022

Thesis Advisor:  
Second Reader:

Michael A. Glosny  
Feroz H. Khan

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**ASSESSING THE COMMERCIAL AND DUAL-USE VIABILITY OF  
PAKISTAN'S GWADAR PORT**

Joseph B. McGinnis  
Lieutenant Commander, United States Navy  
BSME, University of Missouri - Columbia, 2012

Submitted in partial fulfillment of the  
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**NAVAL POSTGRADUATE SCHOOL  
March 2022**

Approved by: Michael A. Glosny  
Advisor

Feroz H. Khan  
Second Reader

Afshon P. Ostovar  
Associate Chair for Research  
Department of National Security Affairs

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## **ABSTRACT**

China has built or expanded commercial ports along the Indian Ocean littorals for the last two decades. Security analysts view these port investments in the context of China's increasing naval presence in the Indian Ocean. In particular, Gwadar Port in Pakistan has garnered much attention. While publicized as a purely commercial venture, the port's dismal performance thus far has led many to speculate whether China is actually building a dual-use facility for PLAN vessels. This thesis investigates these two claims using analytical frameworks to assess Gwadar Port's commercial and dual-use viability. This thesis concludes that Gwadar Port is not an economic gateway or even the most desirable transshipment port in Pakistan. While Gwadar Port appears to be a viable candidate for a dual-use port, it is likely neither the PLAN's first nor second choice compared to Pakistan's other naval bases along the Makran Coast. Nevertheless, China appears to have significant influence in Pakistan, indicating that if China eventually chooses to utilize Gwadar Port as a dual-use port, it has significant leverage to gain access. This finding suggests that security analysts are not misguided to be wary of China's intentions for Gwadar Port and should continue monitoring it, as well as the rest of China's port infrastructure investments in South Asia, for future indications suggesting a move to enhance their dual-use viability. This thesis provides an analytical framework to do so.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
BLA	Baloch Liberation Army
BRI	Belt and Road Initiative
CAREC	Central Asia Regional Economic Cooperation
CARs	Central Asian Republics
COPHC	China Overseas Port Holding Company
CPEC	China-Pakistan Economic Corridor
CCP	Chinese Communist Party
CMPort	China Merchants Port Holdings Company Limited
COSCO	COSCO Shipping Ports Limited
DOD	Department of Defense
DWT	deadweight tonnage
FDI	foreign direct investment
FTA	Free Trade Agreement
FWO	Frontier Works Organization
GDP	gross domestic product
HA/DR	Humanitarian Assistance and Disaster Relief
IED	improvised explosive device
IMF	International Monetary Fund
IOR	Indian Ocean region
JCM	joint consultation mechanism
JNB	Jinnah Naval Base
KKH	Karakoram Highway
KSEW	Karachi Shipyard and Engineering Works
LPD	amphibious transport dock
ML-1	Main Line one
MGD	million gallons per day
MOOTW	military operations other than war
MSRI	21st Century Maritime Silk Road
NEO	noncombatant evacuation operation

PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PNS	Pakistan Navy Station
PRC	People's Republic of China
POL	petroleum, oil, and lubricant
PSA	Port Authority of Singapore
RO-RO	roll-on/roll-off
SASAC	State-owned Assets Supervision and Administration Commission
SIPRI	Stockholm International Peace Research Institute
SLOC	sea lines of communication
SOE	state-owned enterprise
SREB	Silk Road Economic Belt
TEU	twenty-foot equivalent unit



# I. INTRODUCTION

## A. INTRODUCTION

For centuries, command of the Indian Ocean region has passed from one maritime power to the next starting with the Portuguese and then followed by the Dutch, the English, and now the United States. Unlike past Indian Ocean maritime hegemony, the United States has allowed—or guaranteed—other nations the freedom of passage and the free flow of goods on the sea. However, “freedom of passage,” Grygiel writes, “does not mean absence of control.”<sup>1</sup> “Like past maritime powers,” Grygiel points out, “the United States can deny other states access to key sea lanes as well as safeguard a sea lane in case it is threatened by political instability or an enemy.”<sup>2</sup> Regional powers are forced to begrudgingly accept this control—as are extra-regional powers—reliant, as they are on both the vital trade and resources that transit these vital sea lanes and the U.S. maritime supremacy that underwrites their safe passage.

However, dissatisfied maritime nations do not always resign themselves to this status quo. Those that are able pursue what Grygiel calls “strategic independence.”<sup>3</sup> Grygiel explains the incentive to do so:

A state that controls lines of communication has full strategic independence. It does not have to rely on the goodwill and protection of other states to access the resources it needs, project power where it wants, and maintain commercial relations with whom it wants. When a state does not have control over the routes linking it with the sources of resources and other strategic locations, it falls under the influence of the power in charge of those lines. This is why control of routes has always been an objective of states.<sup>4</sup>

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<sup>1</sup> Jakub J. Grygiel, *Great Powers and Geopolitical Change* (Baltimore: Johns Hopkins University Press, 2006), 28.

<sup>2</sup> Grygiel, 28.

<sup>3</sup> Grygiel, 27.

<sup>4</sup> Grygiel, 27.

It is in this light and through a geostrategic lens that many view China's increasing naval presence in the Indian Ocean and its burgeoning diplomatic efforts in the South Asian littorals. Yet, China's increased focus on the region is understandable considering its growing overseas interests. Speaking at a press conference in 2016, Foreign Minister Wang Yi put it plainly:

Like any major country that is growing, China's overseas interests are expanding. At present, there are 30,000 Chinese businesses all over the world and several million Chinese are working and living in all corners of the world. Last year, China's non-financial outbound direct investment reached 118 billion dollars and the stock of China's overseas assets reached several trillion dollars. So it has become a pressing task for China's diplomacy to better protect our ever-growing overseas interests.<sup>5</sup>

Thus, China is compelled to protect its own overseas interests, to achieve strategic independence, and it is the PLAN who have been assigned this task. In 2004, Hu Jintao tasked the PLA with defending China's overseas interests in what is called the *Historic Missions* speech.<sup>6</sup> Four years later, the PLAN sent its first anti-piracy deployment to the Gulf of Aden, a response to the 83 pirate attacks on Chinese merchant vessels that year.<sup>7</sup> In 2011, the PLA sent a frigate to protect vessels participating in the evacuation efforts off the Libyan coast.<sup>8</sup> And in 2015, the PLA evacuated Chinese citizens in Yemen.<sup>9</sup> Safeguarding the security of China's overseas interests was then codified as one of eight "strategic tasks" in the 2015 Defense White Paper on China's Military Strategy.<sup>10</sup> As

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<sup>5</sup> "Foreign Minister Wang Yi Meets the Press," Ministry of Foreign Affairs of the People's Republic of China, March 9, 2016, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1346238.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1346238.shtml).

<sup>6</sup> Daniel Hartnett, "The PLA's Domestic and Foreign Activities and Orientation," Testimony Before the U.S.-China Economic and Security Review Commission Hearing on China's Military and Security Activities Abroad," March 4, 2009, <https://www.uscc.gov/sites/default/files/3.4.09Hartnett.pdf>.

<sup>7</sup> Andrew S Erickson and Austin M Strange, "China's Blue Soft Power," *Naval War College Review* 68, no. 1 (2015): 73–74.

<sup>8</sup> "China Evacuates 12,000 from Libya, Sends Frigate to Help," *China Daily*, February 25, 2011, [http://www.chinadaily.com.cn/china/2011-02/25/content\\_12075249.htm](http://www.chinadaily.com.cn/china/2011-02/25/content_12075249.htm).

<sup>9</sup> "Yemen Evacuation Demonstrates China's Growing Far-Seas Naval Capabilities," *American Enterprise Institute* (blog), April 3, 2015, <https://www.aei.org/foreign-and-defense-policy/asia/yemen-evacuation-demonstrates-chinas-growing-far-seas-naval-capabilities/>.

<sup>10</sup> "Full Text: China's Military Strategy," China.org.cn, May 2015, [http://www.china.org.cn/china/2015-05/26/content\\_35661433.htm](http://www.china.org.cn/china/2015-05/26/content_35661433.htm).

China's overseas economic interests have increased in the past decades, so has the PLAN presence in the Indian Ocean.

However, the PLAN faces one crucial shortcoming if it is to maintain a presence in the Indian Ocean. Aside from a base in Djibouti, China lacks overseas logistics facilities, which means the PLAN will likely face sustainment challenges if it is to maintain a significant naval presence in the Indian Ocean. If China intends to maintain a PLAN presence in the Indian Ocean to protect its overseas interests, then it will require overseas facilities and access points, what Kardon calls "strategic strongpoints."<sup>11</sup> To some, it is not a matter of if, but when and where China will establish an overseas strategic strongpoint. As far as where, the Pentagon's 2017 China Military Power Report has identified Gwadar as the most likely location.<sup>12</sup>

Not everyone believes Gwadar will be the next Chinese strongpoint. Many, mostly in China and Pakistan, claim that Gwadar Port is purely a commercial project. Rather than the next Djibouti, they envision Gwadar as the "New Dubai."<sup>13</sup> They see Gwadar as well on its way to becoming a gateway for China and the energy-rich, land-locked Central Asian Republics to the Middle East, Africa, and even Europe.<sup>14</sup> A deep-water port lying along some of most important sea lines, Gwadar, they believe, will become the most important trading center in South Asia.<sup>15</sup> This thesis will address these two competing claims.

## **B. RESEARCH QUESTION AND MAIN FINDINGS**

If the dual use model is the most likely manifestation of an overseas PLAN strongpoint, and Gwadar is indeed the location of China's next overseas strongpoint, then

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<sup>11</sup> Isaac B Kardon, "A 'World-Class' Military: Assessing China's Global Military Ambitions: Testimony before the U.S.-China Economic and Security Review Commission," June 20, 2019, 4.

<sup>12</sup> "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2017" (Department of Defense, May 15, 2017), 5, [https://dod.defense.gov/Portals/1/Documents/pubs/2017\\_China\\_Military\\_Power\\_Report.PDF](https://dod.defense.gov/Portals/1/Documents/pubs/2017_China_Military_Power_Report.PDF).

<sup>13</sup> "World Insights: China-Pakistan Economic Corridor Bears Fruit amid 70th Anniversary of Ties," *Xinhua*, May 20, 2021, [http://www.xinhuanet.com/english/asiapacific/2021-05/20/c\\_139958109.htm](http://www.xinhuanet.com/english/asiapacific/2021-05/20/c_139958109.htm).

<sup>14</sup> "10 Reasons Why Gwadar Will Become the New Dubai," CPIC Global, July 16, 2019, <https://www.cpicglobal.com/10-reasons-why-gwadar-will-become-the-new-dubai/>.

<sup>15</sup> CPIC Global, "10 Reasons Why Gwadar Will Become the New Dubai."

Gwadar Port should have dual-use viability. Similarly, if Gwadar is truly an up-and-coming commercial hub, then Gwadar Port should have commercial viability. Thus, the question this thesis will answer is the following: What is Gwadar Port’s viability? To answer this question, this thesis assessed Gwadar Port’s commercial viability and dual-use viability.

The research presented in the following chapters suggests that Gwadar Port is not yet a viable commercial port. Gwadar Port is still a long way away from becoming a regional economic hub, much less a desirable commercial alternative to other ports in the region. At the same time, compared to Pakistani naval bases along the Makran Coast, Gwadar is also a long way from becoming a port of choice for the PLAN. Based on the dual-use framework presented in Chapter IV, Gwadar Port meets the minimum requirements to serve as an overseas logistics base for PLAN vessels; however, in comparison to Pakistan’s other naval bases, namely Karachi Naval Base and Jinnah Naval Base, it is unlikely that Gwadar Port will become an overseas logistics base for PLAN vessels anytime soon.

Table 1. Gwadar Port’s Commercial Viability Findings

	Hinterland Connectivity	Regional Stability	Critical Infrastructure
Viability	No	No	No

Table 2. Gwadar Port’s Dual-Use Viability Findings

	Naval Base Characteristics		Favorable comparison to Pakistan’s Naval Bases	China’s Influence in Pakistan			
	Strategic Location	Port Characteristics and Infrastructure		Favorable Port Concessions	Military Ties	Financial Ties	Political Ties
Viability	Yes	Yes	No	Yes	Yes	Yes	Yes

### C. SIGNIFICANCE OF THE RESEARCH QUESTION

For the last two decades, China has built or expanded commercial ports along the Indian Ocean littorals, including in Pakistan, Sri Lanka, Bangladesh, and Myanmar. These projects are now central to the 21st Century Maritime Silk Road (MSRI), the maritime aspect of China's Belt and Road Initiative (BRI), Xi Jinping's signature foreign policy initiative.<sup>16</sup> Thorne and Spevack write, "BRI port investments lie at the intersection of Beijing's pledge to promote economic development and the increasing presence of China's military in the Indo-Pacific."<sup>17</sup> In many of these ports, China is a part owner and in some even the port operator. This leads countries like the United States and India to be wary of China's intentions for these ports, which are now, as Brewster writes, at the "forefront of strategic thinking about the Indian Ocean."<sup>18</sup>

Understanding Gwadar Port will shed light on the rest of China's overseas port infrastructure investments across South Asia, and beyond. Furthermore, it will shed light on some of the drivers behind the 21st Century Maritime Silk Road. For instance, if the evidence indicates Gwadar is not commercially viable, this then suggests that Chinese investment in Gwadar may not be economically motivated. Confirmation of Gwadar Port's dual-use viability does not confirm China's strategic motives. However, if the evidence suggests Gwadar Port is viable as a dual-use port, then this increases the potential for China to establish a permanent presence in the Indian Ocean, justifying further scrutiny into whether the rest of China's overseas port investments are also viable dual-use facilities.

### D. LITERATURE REVIEW

Those that promote Gwadar Port's potential as a commercially viable port claim it will be a transshipment hub for trade and energy. They point to Gwadar's geographic

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<sup>16</sup> Yuen Yuen Ang, "Demystifying Belt and Road," May 22, 2019, <https://www.foreignaffairs.com/articles/china/2019-05-22/demystifying-belt-and-road>.

<sup>17</sup> Devin Thorne and Ben Spevack, "Harbored Ambitions: How China's Port Investments Are Strategically Reshaping the Indo-Pacific" (C4ADS, 2017), 10.

<sup>18</sup> David Brewster, "Silk Roads and Strings of Pearls: The Strategic Geography of China's New Pathways in the Indian Ocean," *Geopolitics* 22, no. 2 (2017): 276, <https://doi.org/10.1080/14650045.2016.1223631>.

position relative to potential markets and the inability of Pakistan's other commercial ports to meet their needs. Gwadar's geographic position is consistently cited as one of the main reasons the port is an ideal trade hub.<sup>19</sup> Analysts like Kalim, Syed, and Shah Afridi et al. point out that Gwadar's geographic position provides the shortest land route for regional trade from CARs, China, and Afghanistan.<sup>20</sup> They also highlight Gwadar's proximity to the Persian Gulf and the most important oil trading routes in the world.<sup>21</sup>

Khattak and Khan agree that Gwadar's geography enables it to act as a trade hub connecting and capitalizing on trade from Central Asia, South Asia, and the Middle East as well as a transshipment hub for Middle Eastern and Central Asian oil and gas.<sup>22</sup> They also point out that Gwadar will exploit the excess trade unable to flow through the ports in Kasim and Karachi, both of which, they claim, have reached their max capacity.<sup>23</sup> Khan holds a similar view, claiming that Karachi and Mohammad Bin Qasim ports are operating at full capacity, which necessitates new ports like Gwadar.<sup>24</sup>

While optimistic about Gwadar Port's trade potential, most of these analysts also acknowledge that for this potential to be realized, the port must be connected via land routes

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<sup>19</sup> Inayat Kalim and Areeja Syed, "Maritime Economy and Gwadar Port: A Growth Catalyst," *Policy Perspectives* 17, no. 1 (2020): 82, <https://doi.org/10.13169/polipers.17.1.0073>; Javeria Khattak and Robina Khan, "Pakistan's Gwadar Port: Benefits to Pakistan and China and Its Economic Viability," *International Journal of Social Science and Education Research* 3, no. 2 (October 2021): 30; Hikmat Shah Afridi, Sumayya Bibi, and Bilal Muhammad, "The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade," *Global Political Review* 1, no. 1 (2016): 22, [https://doi.org/10.31703/gpr.2016\(I-I\).03](https://doi.org/10.31703/gpr.2016(I-I).03); Ryuichi Shibasaki et al., "Could Gwadar Port in Pakistan Be a New Gateway? A Network Simulation Approach in the Context of the Belt and Road Initiative," *Sustainability* 11, no. 20 (2019): 22, <https://doi.org/10.3390/su11205757>; Dr Shabir Ahmad Khan, "Geo-Economic Imperatives of Gwadar Sea Port and Kashgar Economic Zone for Pakistan and China," *IPRI Journal* XIII, no. 2 (2013): 90.

<sup>20</sup> Kalim and Syed, "Maritime Economy and Gwadar Port," 82; Shah Afridi, Bibi, and Muhammad, "The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade," 20.

<sup>21</sup> Shah Afridi, Bibi, and Muhammad, "The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade," 20; Kalim and Syed, "Maritime Economy and Gwadar Port," 75.

<sup>22</sup> Khattak and Khan, "Pakistan's Gwadar Port," 29–30.

<sup>23</sup> Khattak and Khan, 32.

<sup>24</sup> Khan, "Geo-Economic Imperatives of Gwadar Sea Port and Kashgar Economic Zone for Pakistan and China," 100.

to the hinterland, which requires more infrastructural development.<sup>25</sup> For example, Shibasaki et al. write that for Gwadar to achieve its market potential as a gateway for Central Asia, the port must first be connected via international rail with Central Asia via Afghanistan and China.<sup>26</sup> This is why, in Garlick's opinion, geography is actually a major impediment to Gwadar Port's utility as a commercial port.<sup>27</sup> As he explains, Gwadar is in a poor province relatively isolated from the rest of Pakistan's major commercial centers with only a highway and little else in terms of infrastructure.<sup>28</sup> Pakistan's main industrial centers, he notes, are far away in Gujranwala, Lahore, and Faisalabad.<sup>29</sup> For Gwadar Port to be a viable commercial port for Pakistan, much less for Central Asia and China, the port will need more connectivity infrastructure such as railways and pipelines; however, "difficult terrain, high altitudes, the possibility of insurgency," he writes, "mean that adding any further infrastructure alongside the highway (such as a railway or pipeline) is fraught with risk and extreme difficulty in terms of maintenance and construction."<sup>30</sup>

Some analysts, such as Gholizadeh et al. believe that Gwadar will play an important role in reducing China's dependence on oil that must transit the Malacca straight.<sup>31</sup> They claim that the oil route from the Persian Gulf to China can replace Malacca with Gwadar.<sup>32</sup> They calculate that a railway connecting China and Kashgar would reduce the mileage of energy imports from the Middle East by 85 percent.<sup>33</sup> "Another bolder idea," they write,

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<sup>25</sup> Kalim and Syed, "Maritime Economy and Gwadar Port," 78; Shah Afridi, Bibi, and Muhammad, "The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade," 19; Shibasaki et al., "Could Gwadar Port in Pakistan Be a New Gateway?," 22; Khan, "Geo-Economic Imperatives of Gwadar Sea Port and Kashgar Economic Zone for Pakistan and China," 91.

<sup>26</sup> Shibasaki et al., "Could Gwadar Port in Pakistan Be a New Gateway?," 22.

<sup>27</sup> Jeremy Garlick, "Deconstructing the China–Pakistan Economic Corridor: Pipe Dreams Versus Geopolitical Realities," *Journal of Contemporary China* 27, no. 112 (2018): 524, <https://doi.org/10.1080/10670564.2018.1433483>.

<sup>28</sup> Garlick, 524.

<sup>29</sup> Garlick, 524.

<sup>30</sup> Garlick, 524.

<sup>31</sup> Ali Gholizadeh, Seyedashkan Madani, and Saba Saneinia, "A Geoeconomic and Geopolitical Review of Gwadar Port on Belt and Road Initiative," *Maritime Business Review* 5, no. 4 (2020): 342, <https://doi.org/10.1108/MABR-11-2019-0051>.

<sup>32</sup> Gholizadeh, Madani, and Saneinia, 347.

<sup>33</sup> Gholizadeh, Madani, and Saneinia, 344.

“is to build a China-Pakistan oil pipeline from the port of Gwadar,” which they say would “increase oil traffic to a greater extent.”<sup>34</sup>

However, analysts like Garlick are skeptical of Gwadar’s capacity as an oil transshipment port; he argues that the capacity provided by its three 200-meter berths and 100-meter service berth are insufficient for even mid-sized oil tankers.<sup>35</sup> Wu Minghua, an independent shipping industry analyst, corroborates Garlick’s claim. He pointed out to the *Global Times* that Gwadar Port had a handling capacity of 1 million tons per year in 2016, only a tiny fraction of China’s total oil imports in 2015, which were over 335 million tons, making it unlikely that the port will serve as an alternative to Malacca.<sup>36</sup> Additionally, Garlick writes that Pakistan’s Balochistan province has been highly unstable for years, plagued by violent insurgencies and terrorist attacks, making constructing an oil pipeline problematic.<sup>37</sup>

Analysts like Khurana, Erickson, Collins, and Brewster agree with Garlick, pointing out that, whether transported by road, rail, or pipeline, oil will have to traverse through Balochistan, Pakistan’s insurgency-ridden province.<sup>38</sup> They add that the cost of building a pipeline at high-altitudes, on rugged terrain, and in freezing temperatures makes the viability of constructing an oil pipeline unfeasible.<sup>39</sup> Thus, although numerous analysts, mostly in Pakistan and China, have written about Gwadar Port’s viability as a trade and energy hub, plenty of less-optimistic literature exists.

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<sup>34</sup> Gholizadeh, Madani, and Saneinia, 344.

<sup>35</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 525.

<sup>36</sup> Xuanmin Li, “Gwadar Port Benefits to China Limited,” *Global Times*, November 23, 2016, <https://www.globaltimes.cn/content/1019840.shtml>.

<sup>37</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 525–26.

<sup>38</sup> Andrew S Erickson and Gabriel B Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” *Naval War College Review* 63, no. 2 (2010): 106; Gurpreet S. Khurana, “China’s ‘String of Pearls’ in the Indian Ocean and Its Security Implications,” *Strategic Analysis* 32, no. 1 (2008): 12, <https://doi.org/10.1080/09700160801886314>.

<sup>39</sup> Erickson and Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” 101; Brewster, “Silk Roads and Strings of Pearls,” 285; Khurana, “China’s ‘String of Pearls’ in the Indian Ocean and Its Security Implications,” 9–10.



The literature questioning Gwadar Port's commercial viability often offers an alternative theory as to why China would continue to invest in a commercial port with seemingly dismal trade prospects. Scholars like Malik argue that "China will not spend hundreds of billions of dollars on infrastructure projects under the MSRI without the promise of future strategic benefits, and de facto control or privileged access to dual-use naval ports and airbases."<sup>40</sup> Panneerselvam, too, believes it is plausible that port projects constructed along the Indian Ocean littoral may not all be driven by commercial logic; some might also serve to enhance China's naval presence in the region.<sup>41</sup> Abhijit Singh, a senior fellow at the Observer Research Foundation in New Delhi, writes, "There is an inherent duality in the facilities that China is establishing in foreign ports, which are ostensibly commercial but quickly upgradeable to carry out essential military missions."<sup>42</sup>

Indian Naval analyst Gurpreet Khurana believes China is unlikely to try to develop MSRI ports into naval bases, but he does not rule out the possibility that informal agreements with the political leadership of the MSRI countries could lead to PLAN access to dual-use facilities.<sup>43</sup> He writes that eventually, China may even be permitted to build forward operating bases with dedicated naval infrastructure such as ammunition stores and equipment spares.<sup>44</sup>

Russel and Berger are quite explicit about their belief that China is already developing ports with dual-use functionality along the maritime silk road, designing ports meant to serve as "hybrid commercial and military logistics support points."<sup>45</sup> Brewster goes so far as to say that the naval port at Djibouti was only the first step of China's

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<sup>40</sup> J. Mohan Malik, "Myanmar's Role in China's Maritime Silk Road Initiative," *Journal of Contemporary China* 27, no. 111 (May 4, 2018): 372, <https://doi.org/10.1080/10670564.2018.1410969>.

<sup>41</sup> Prakash Panneerselvam, "Maritime Component of China-Pakistan Economic Corridor (CPEC): India-China Competition in the Arabian Sea," *Maritime Affairs: Journal of the National Maritime Foundation of India* 13, no. 2 (July 3, 2017): 38, <https://doi.org/10.1080/09733159.2017.1412577>.

<sup>42</sup> James Kynge, Chris Campbell, and Farhan Bokhari, "How China Rules the Waves," accessed December 27, 2021, <https://ig.ft.com/sites/china-ports>.

<sup>43</sup> Khurana, "China's 'String of Pearls' in the Indian Ocean and Its Security Implications," 23.

<sup>44</sup> Khurana, 22.

<sup>45</sup> Daniel R Russel and Blake H Berger, "Weaponizing the Belt and Road Initiative" (Asia Society Policy Institute, September 2020), 27.

expanding military presence in the Indian Ocean.<sup>46</sup> Dutton et al. agree, writing that Djibouti, “should be considered as one critical node in an emerging network of overseas port facilities that serve both strategic and commercial purposes. As a lone base unsupported by other Chinese bases or allies, Djibouti does not yet offer the PLA significant wartime capability.”<sup>47</sup> If China is to guarantee the security of its overseas interests and achieve strategic independence in the Indian Ocean, it will require another military base.

However, as Wuthnow notes, an overt overseas military base in Pakistan is not politically viable option for China because it violates two of its most paramount foreign policy principles: “noninterference in the internal affairs of other countries and not acting like an imperialist or hegemonic power.”<sup>48</sup> He writes, establishing “large overseas military bases or extensive networks of facilities on the sovereign territory of other states,” would harm China’s “self-image as a champion of the developing world,” and “threaten China’s image as a peaceful rising power.”<sup>49</sup>

So, as Yung et al. ask, “Which logistics model is China most likely to adopt to support its expanding international interests?” One precedent potentially shedding light on this question is the PLAN base in Djibouti. In August 2017, China officially opened its first military base in Djibouti.<sup>50</sup> Downs et al. note that China had previously asserted it would not establish a military base overseas.<sup>51</sup> Even after the base opened, Chinese media claimed it was not a military outpost but a logistics center, meant for peacekeeping and

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<sup>46</sup> David Brewster, “China’s New Network of Indian Ocean Bases,” *The Interpreter*, January 30, 2018, <https://www.lowyinstitute.org/the-interpreter/chinas-new-network-indian-ocean-bases>.

<sup>47</sup> Peter A Dutton, Isaac B Kardon, and Conor M Kennedy, “China Maritime Report No. 6: Djibouti: China’s First Overseas Strategic Strongpoint” (China Maritime Report No. 6, April 2020), 3–4.

<sup>48</sup> Joel Wuthnow, “Chinese Perspective on the Belt and Road Initiative: Strategic Rationales, Risks, and Implications,” *China Strategic Perspectives*, October 2017, 21, <https://inss.ndu.edu/Portals/68/Documents/stratperspective/china/ChinaPerspectives-12.pdf>.

<sup>49</sup> Wuthnow, 21–23.

<sup>50</sup> Ben Blanchard and Michael Perry, “China Formally Opens First Overseas Military Base in Djibouti,” *Reuters*, August 1, 2017, <https://www.reuters.com/article/us-china-djibouti-idUSKBN1AH3E3>.

<sup>51</sup> Erica Downs, Jeffrey Becker, and Patrick deGategno, “China’s Military Support Facility in Djibouti: The Economic and Security Dimensions of China’s First Overseas Base” (Center for Naval Analyses, July 2017), 1.

humanitarian aid missions, not military expansion.<sup>52</sup> An article in *Xinhua* asserted that China had no intention of turning the “logistics center” into a “military foothold.”<sup>53</sup>

However, the evidence presents a different story. According to Dutton et al., images of the base show, among other facilities, “an armory, equipment support area, subterranean entrance, barracks, heliport, oil depot, reinforced bunker,” as well as a petroleum, oil, and lubricant (POL) transport detachment for refueling operations, facilities more akin to a military base, not a logistics center.<sup>54</sup> Rolland et al. write that the base allows the PLAN to execute its far-seas protection mission, equipping it to conduct multiple military operations other than war (MOOTW).<sup>55</sup>

However, analysts like Kardon and Rolland et al. do not think that China will replicate the Djibouti model.<sup>56</sup> As Kardon explains, the geopolitical conditions surrounding Djibouti’s establishment are unique.<sup>57</sup> He writes:

Djibouti’s geographic position allows it to directly support the PLA’s first regular overseas military mission (the anti-piracy escort task forces operating in and around the Gulf of Aden). Djibouti is the site of Japan’s only overseas military installation, a crucial fact that Chinese interlocutors never fail [to] emphasize. The confluence of these two factors made the decision to establish a base much easier from a diplomatic and operational standpoint.<sup>58</sup>

More likely, China will follow the Dual-Use Logistics Facility model, which appears, as Wuthnow writes, to be both compatible with China’s foreign policy principles

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<sup>52</sup> “Commentary: China’s Djibouti Base Not for Military Expansion,” *Xinhua*, July 13, 2017, [http://www.xinhuanet.com/english/2017-07/13/c\\_136441371.htm](http://www.xinhuanet.com/english/2017-07/13/c_136441371.htm).

<sup>53</sup> *Xinhua*, “Commentary: China’s Djibouti Base Not for Military Expansion.”

<sup>54</sup> Dutton, Kardon, and Kennedy, “China Maritime Report No. 6: Djibouti: China’s First Overseas Strategic Strongpoint,” 30–31.

<sup>55</sup> Nadege Rolland, Mathieu Duchâtel, and Kristen Gunness, “Securing the Belt and Road Initiative: China’s Evolving Military Engagement Along the Silk Roads” (National Bureau of Asian Research, September 2019), 53.

<sup>56</sup> Kardon, “A ‘World-Class’ Military: Assessing China’s Global Military Ambitions: Testimony before the U.S.-China Economic and Security Review Commission,” 4; Rolland, Duchâtel, and Gunness, “Securing the Belt and Road Initiative: China’s Evolving Military Engagement Along the Silk Roads,” 53.

<sup>57</sup> Kardon, “A ‘World-Class’ Military: Assessing China’s Global Military Ambitions: Testimony before the U.S.-China Economic and Security Review Commission,” 4.

<sup>58</sup> Kardon, 4–5.

as well as China's long-term overseas interests.<sup>59</sup> With the Dual-Use Logistics Facility model, China uses commercial contracts at overseas ports to support Chinese military vessels. Brewster characterizes the Dual-Use Logistics Facility Model arrangement as follows:

China may instead focus on arrangements for contingent and limited access to critical infrastructure in countries where it has friendly and stable relationships. These could range from standing agreements for PLAN vessels to use port facilities on a commercial basis, to the positioning of Chinese 'civilian' service providers, to the prepositioning of spares or munitions, or to the use of facilities dedicated to the PLAN.<sup>60</sup>

Yung et al. write that a Dual-Use Logistics Facility Model is sufficient to meet China's current Indian Ocean mission-set:

If China intends mainly to combat nontraditional threats and develop a modest power projection capability to respond to a relatively small-scale overseas contingency, such as a noncombatant evacuation operation (NEO), humanitarian assistance and disaster relief (HA/DR) missions, low-intensity conflict, counterterrorism, or protection of PRC expatriates, the Dual Use Logistics Facility is sufficient. China could use dual use facilities as forward operating logistics platforms to engage in nontraditional security operations (including special forces operations ashore) to combat terrorists and other threats to China's overseas operations and citizens.<sup>61</sup>

Thus, if Gwadar is to become a future Chinese strongpoint, it seems most likely that the strongpoint will manifest in the form of a Dual-Use Logistics Facility. Rolland et al. also believe China may gradually begin utilizing certain overseas commercial ports for dual use, noting that, "logistics companies can be reliable partners for the PLA Navy."<sup>62</sup>

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<sup>59</sup> Wuthnow, "Chinese Perspective on the Belt and Road Initiative: Strategic Rationales, Risks, and Implications," 25.

<sup>60</sup> Brewster, "Silk Roads and Strings of Pearls," 279.

<sup>61</sup> Christopher D Yung and Ross Rustici, "China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century," China Strategic Perspectives (Institute for National Strategic Studies, October 2014), 25–26.

<sup>62</sup> Rolland, Duchâtel, and Gunness, "Securing the Belt and Road Initiative: China's Evolving Military Engagement Along the Silk Roads," 54.

In fact, Wang believes China has already begun laying the groundwork for partnering with logistics companies.<sup>63</sup> As she explains, the National Defense Transportation Law, obligating China's overseas state-owned enterprises (SOEs) to support Beijing's defense interests, means that "commercial ports owned and/or operated by Chinese SOEs could conceivably be used to support the military's long-range projection capabilities."<sup>64</sup> However, she notes that the timeline for Gwadar becoming a functional dual-use port is still far in the future.<sup>65</sup> Writing in June 2021, she says that the port of Gwadar is "still in its groundwork stage and observers should not expect to see a near-term utilization of the port as an access point for the PLAN."<sup>66</sup> Kardon et al. also believe Gwadar is an inchoate strategic strongpoint.<sup>67</sup> They point to Gwadar's key geographic location and strong Sino-Pakistani ties, and write that "if infrastructure projects mature, Gwadar could become a key peacetime replenishment or transfer point for PLA equipment and personnel."<sup>68</sup>

Others, as Barton writes, already sees Gwadar Port "as a maintenance and supply stop for Chinese naval vessels in the IOR."<sup>69</sup> Two such analysts, Russel and Berger, claim that Gwadar "is now or will soon be able to accommodate a substantial number of PLAN ships."<sup>70</sup> Thus, there is a divergence in the literature regarding the viability of Gwadar Port. Some say it is a viable commercial port, while others argue it is on track to become a dual-use port for PLAN vessels operating in the Indian Ocean. This thesis lies at the nexus of these two competing claims.

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<sup>63</sup> Jocelyn Wang, "The Realities of China's Overseas Port Push," *The Diplomat*, June 4, 2021, <https://thediplomat.com/2021/06/the-realities-of-chinas-overseas-port-push/>.

<sup>64</sup> Wang.

<sup>65</sup> Wang.

<sup>66</sup> Wang.

<sup>67</sup> Isaac B Kardon, Conor M Kennedy, and Peter A Dutton, "China Maritime Report No. 7: Gwadar: China's Potential Strategic Strongpoint in Pakistan" (China Maritime Studies Institute, August 2020), 2, <https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=1006&context=cmsi-maritime-reports>.

<sup>68</sup> Kardon, Kennedy, and Dutton, 2.

<sup>69</sup> Benjamin Barton, "Leveraging the 'String of Pearls' for Strategic Gains? An Assessment of the Maritime Silk Road Initiative's (MSRI) Economic/Security Nexus in the Indian Ocean Region (IOR)," *Asian Security*, 2020, 11, <https://doi.org/10.1080/14799855.2020.1844664>.

<sup>70</sup> Russel and Berger, "Weaponizing the Belt and Road Initiative," 24.

## E. RESEARCH DESIGN

Many scholars have written about China's overseas port infrastructure investments. Most of their analyses examine China's port infrastructure investments across multiple countries.<sup>71</sup> Such research provides much helpful information; however, this approach has its shortcomings. First, this approach overlooks the fact that each port project takes place in different political, economic, and social environments. These differences can have an important impact on China's role in the manifestation of the port project, and, importantly, China's use of the port upon its completion. By examining a single case study, Gwadar Port in Pakistan, this thesis avoids the uncertainty presented by these confounding factors, minimizing the influence of variables other than those presented in the analytical frameworks presented below. Gwadar Port is chosen as the single case study because, as Kardon notes, Chinese analysts view Gwadar as the "top choice for establishing a new overseas strategic strongpoint."<sup>72</sup> Among other reasons, China has deeper military and political ties with Pakistan than arguably any of the other "String of Pearls" host nations—Hambantota in Sri Lanka, Kyaukpyu in Myanmar, Chittagong in Bangladesh—in South Asia. Also, China's involvement in Gwadar Port predates any of these other ports, providing more time and evidence to evaluate. Second, because most of the current analyses examine more than one of China's Indian Ocean port investments, it often sacrifices depth of evidence for breadth. Thus, conclusions are often inferred based on reasoning, rather than deduced based on evidence. This thesis will provide an in-depth analysis of Gwadar Port using an analytical framework to assess both the commercial and

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<sup>71</sup> For example, see Brewster, "Silk Roads and Strings of Pearls"; Brewster, "China's New Network of Indian Ocean Bases"; Jonathan Dixon, "From 'Pearls' to 'Arrows': Rethinking the 'String of Pearls' Theory of China's Naval Ambitions," *Comparative Strategy* 33, no. 4 (2014): 389–400, <https://doi.org/10.1080/01495933.2014.941730>; James R. Holmes, "Gwadar and the 'String of Pearls,'" *The Diplomat*, February 9, 2013, <https://thediplomat.com/2013/02/gwadar-and-the-string-of-pearls/>; Panneerselvam, "Maritime Component of China–Pakistan Economic Corridor (CPEC)"; Christopher D Yung, "Burying China's 'String of Pearls,'" *The Diplomat*, January 22, 2015, <https://thediplomat.com/2015/01/burying-chinas-string-of-pearls/>; Matthew Funaiole and Jonathan Hillman, "China's Maritime Silk Road Initiative: Economic Drivers and Challenges," *China's Maritime Silk Road: Strategic and Economic Implications for the Indo-Pacific Region*, 2018, <https://www.csis.org/analysis/chinas-maritime-silk-road>; Christopher J. Pehrson, "String of Pearls: Meeting the Challenge of China's Rising Power across the Asian Littoral" (Fort Belvoir, VA: Strategic Studies Institute, July 2006), <https://doi.org/10.21236/ADA451318>; Khurana, "China's 'String of Pearls' in the Indian Ocean and Its Security Implications."

<sup>72</sup> Kardon, Kennedy, and Dutton, "China Maritime Report No. 7: Gwadar: China's Potential Strategic Strongpoint in Pakistan," 2.

dual-use viability of Gwadar Port. While not an exhaustive list of factors, the frameworks presented provide a foundation for follow-on research by facilitating a systematic comparison between port projects.

To analyze Gwadar Port's commercial viability, this thesis starts by evaluating Gwadar's trade potential with respect to the Central Asian Republics (CARs), Afghanistan, and western China. Next, this thesis utilizes an economic viability framework. There are many factors that might be considered for such a framework. This thesis concentrates on three. First, Gwadar Port's hinterland connectivity is assessed. A port's commercial viability depends upon its connectivity with inland markets, connectivity which requires secure roads, rails, and pipelines. Second, the regional stability in the Balochistan province where Gwadar Port is situated is evaluated. Regional stability is an essential factor in Gwadar Port's economic viability as a gateway port. As Ades and Chua write, regional instability can reduce trade flows by blocking trading routes and destroying transport networks, making transit routes unreliable, "especially in situations where governments have lost control and lawlessness prevail [sic]."<sup>73</sup> They write, "Such disruptions are especially acute for landlocked countries, which rely on transit routes through neighboring countries for coastal access."<sup>74</sup> These words are especially pertinent to Gwadar Port and the landlocked CARs, Afghanistan, and Xinjiang. Third, I examine whether Gwadar Port has the critical infrastructure necessary for development and growth. This section will examine the continuing water and electricity crisis in the region and assess its implications for the success of the Gwadar Port Project.

A framework is also used to analyze Gwadar Port's dual-use viability. It also consists of three criteria. First, does Gwadar Port have naval base potential, which consists of two criteria: strategic location and the minimum required characteristics to accommodate warships. A strategic port must be near major sea lines of communication. An isolated port far from China's perceived security threats does little to protect China's security interests. Furthermore, Gwadar must have the necessary characteristics to

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<sup>73</sup> Alberto Ades and Hak B. Chua, "Thy Neighbor's Curse: Regional Instability and Economic Growth," *Journal of Economic Growth* 2, no. 3 (1997): 289.

<sup>74</sup> Ades and Chua, 289.

accommodate PLAN vessels. This means Gwadar Port's channel must be deep enough and its piers large enough accommodate big warships. Also, the port must have the facilities and infrastructure to refit, repair, and support a PLAN vessel and its crew.

The second criteria is a comparative one; not only must Gwadar Port have the capacity and capability to sustain PLAN vessels and crew, but it must also compare favorably to Pakistan's other naval bases along the Makran Coast. If Gwadar Port is inadequate by comparison, then one can reasonably argue that the PLAN will not send its warships to Gwadar in lieu of Pakistan's more capable naval bases. Therefore, the second factor in the dual-use framework is an assessment of how Gwadar Port compares to Pakistan's other naval bases.

The third, and perhaps the most determinative, factor is whether China has the influence to gain military access to Pakistan's ports. Gwadar Port may be strategically located, accommodate PLAN naval vessels, and be a desirable port of choice compared to other naval bases; however, if China's military cannot use the port, then the rest of the factors matter little. Therefore, this criterion requires that China has influence among those with the authority to grant military access to Pakistan's ports. Influence comes in many forms. The presence of SOEs with authority over port operations is potentially one form, China and Pakistan's military, economic, and political relationships are certainly others.

This thesis relies upon in-depth analysis of primary sources such as the official CPEC website, Gwadar Port Operating Authority's website, Karachi Shipyard site, as well as reports from the World Bank, Asian Development Bank, and International Monetary Fund. Secondary sources such as journal articles are utilized for their detailed analysis and extensive research, as are think tanks such as the Center for Strategic and International Studies, the Lowy Institute, China Maritime Studies Institute, National Defense University, and Jamestown Foundation's *China Brief*. I also utilize U.S. government reports and hearing transcripts, which provide a perspective of the information U.S. policymakers rely upon to make decisions. Official Chinese and Pakistani media are used to provide the official, if not overly optimistic, perspective on the Gwadar Port Project. More often, trustworthy newspapers like *Dawn*—the largest and oldest English language newspaper in



Pakistan—are used, which are useful for laying out a historical record of the important developments in Gwadar Port’s history.

## **F. CHAPTER-BY-CHAPTER SUMMARY**

The paper is divided into five parts. Following Chapter I, Chapter II provides a short description of the Gwadar Port Project, contextualizing the project within both the China-Pakistan Economic Corridor (CPEC) initiative and the broader Belt and Road Initiative. Chapter III examines Gwadar Port’s commercial viability based on the framework detailed. Following this, Chapter IV examines Gwadar’s dual-use viability in depth, including a discussion of the relevance of the frequently associated “debt-trap” narrative. The conclusion consolidates the findings and offers the broader implications China’s MSRI port infrastructure investments.

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## **II. THE GWADAR PORT PROJECT**

### **A. INTRODUCTION**

Before analyzing Gwadar Port's commercial or dual-use viability, it is necessary to start with a brief description of the Gwadar Port project. While the origins of the project date back over half a century, Gwadar Port was only developed and gained prominence in recent decades. To understand Gwadar Port today, the port project must be contextualized within the broader China Pakistan Economic Corridor initiative and, even more broadly, within Xi Jinping's 21st Century Maritime Silk Road initiative. This description will help unravel Gwadar Port's significance and explain why China became interested in a small fishing village in Pakistan.

### **B. CHAPTER OUTLINE**

This chapter begins with a brief description of the Belt and Road Initiative (BRI), and specifically, the 21st Century Maritime Silk Road initiative (MSRI). From there, the chapter concentrates on the China-Pakistan Economic Corridor (CPEC), the flagship of the BRI, and then narrows to the Gwadar Port project, the flagship project of CPEC. A discussion of Gwadar Port's origins and development up until port management changed hands from Port Authority of Singapore (PSA) to China Overseas Port Holding Company (COPHC) sets the stage for the following chapters.

### **C. THE 21ST CENTURY MARITIME SILK ROAD**

Chinese President Xi Jinping proposed the idea of the MSRI during a speech to the Indonesian parliament in October 2013.<sup>75</sup> The MSRI, along with the Silk Road Economic Belt (SREB) are collectively called the One Belt, One Road (OBOR), or simply the Belt and Road Initiative (BRI). Whereas the SREB is the overland pathway, connecting China's underdeveloped hinterland to Europe via transportation and connectivity infrastructure spanning Central Asia, the MSRI is a maritime pathway connecting China to South Asia

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<sup>75</sup> Jinping Xi, "Speech by Chinese President Xi Jinping to Indonesian Parliament-," ASEAN-China Centre, October 3, 2013, [http://www.asean-china-center.org/english/2013-10/03/c\\_133062675.htm](http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm).

through a corridor of ports, railways, and other sea-based transportation and connectivity infrastructure.

The MSRI is neither original nor new. It relates to the ancient silk road, a commercial maritime pathway connecting China to Europe via the South China Sea, Indian Ocean, and the Mediterranean, along which silk and other commodities were traded.<sup>76</sup> The modern-day silk road, unveiled in 2013, is a renewal of China's longstanding infrastructure development in the region. According to Wuthnow, Chinese overseas infrastructure development projects go back 25 years.<sup>77</sup> Thus, as Brewster writes, the MSRI "is essentially an attempt to 'rebrand' China's existing maritime infrastructure interests and future plans in the Indian Ocean within the umbrella of a single coherent plan."<sup>78</sup> In Pakistan, this single coherent plan is a high-profile investment package called the China-Pakistan Economic Corridor.

#### **D. CHINA-PAKISTAN ECONOMIC CORRIDOR**

Presented as the BRI's flagship project, CPEC is a major bilateral initiative to build major infrastructure projects such as seaports, airports, railways, and roads across Pakistan connecting China to the Arabian Sea.<sup>79</sup> Xi Jinping announced the initiative in 2015 during a state visit to Pakistan in which he signed deals amounting to \$46 billion—later increased to \$62 billion.<sup>80</sup> Just as the MSRI is largely a rebranding of existing maritime infrastructure projects and interests, many CPEC projects predate CPEC's inauguration. For instance, according to Small, plans to treble the width of the Karakoram Highway (KKH) and add

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<sup>76</sup> Jean-Marc F. Blanchard and Colin Flint, "The Geopolitics of China's Maritime Silk Road Initiative," *Geopolitics* 22, no. 2 (2017): 226, <https://doi.org/10.1080/14650045.2017.1291503>.

<sup>77</sup> Wuthnow, "Chinese Perspective on the Belt and Road Initiative: Strategic Rationales, Risks, and Implications," 4.

<sup>78</sup> Brewster, "Silk Roads and Strings of Pearls," 280.

<sup>79</sup> "Pakistan Views CPEC as Flagship Project of China's Belt and Road Initiative," *New China*, May 11, 2017, [http://www.xinhuanet.com/english/2017-05/11/c\\_136274094.htm](http://www.xinhuanet.com/english/2017-05/11/c_136274094.htm); Muhammad Shahbaz Sharif, "One Belt One Road: Towards a Win-Win Partnership," *People's Daily Online*, May 12, 2017, <http://en.people.cn/n3/2017/0512/c90000-9214432.html>.

<sup>80</sup> Salman Siddiqui, "CPEC Investment Pushed from \$55b to \$62b," *The Express Tribune*, April 12, 2017, <https://tribune.com.pk/story/1381733/cpec-investment-pushed-55b-62b>.

an all-weather surface to accommodate heavy vehicles dates back to 2006.<sup>81</sup> He writes that the project was estimated to be complete by 2014, but delays and setbacks, including a massive landslide, have repeatedly pushed back the estimated completion date.<sup>82</sup> Nevertheless, the engineers have steadily continued resurfacing stretches of the road, and these projects have now joined the long list of CPEC transportation infrastructure projects on the CPEC website.<sup>83</sup>

Official Chinese media describes CPEC as a “bridge for the new Maritime Silk Route,” a 3000-kilometer network of roads, railways, pipelines connecting Pakistan’s Gwadar Port to Kashgar in China’s northwestern region.<sup>84</sup> Top Pakistani officials say the corridor will “transform Pakistan into a regional hub and give China a shorter and cheaper route for trade with much of Asia, the Middle East and Africa.”<sup>85</sup> A Pakistani foreign affairs adviser stressed that CPEC should not be regarded in terms of regional power dynamics or zero-sum relationships, but rather in the spirit of cooperation and collaboration.<sup>86</sup> CPEC, he explained, is a “win-win” project based on mutual benefits.<sup>87</sup> China and Pakistan present CPEC as win-win project focused on achieving mutual benefits, but other countries, such as India and the U.S. do not see it quite the same way. As Small writes, “As with many other BRI projects, it is impossible to disentangle CPEC from geopolitics.”<sup>88</sup> One CPEC project in particular has been at the heart of geopolitical debate: Gwadar Port.

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<sup>81</sup> Andrew Small, *The China-Pakistan Axis: Asia’s New Geopolitics*, *The China-Pakistan Axis: Asia’s New Geopolitics* (New York, NY: Oxford University Press, 2015), 99.

<sup>82</sup> “Transport Infrastructure Projects under CPEC,” China-Pakistan Economic Corridor (CPEC) Authority Official Website, accessed January 7, 2022, <http://cpec.gov.pk/infrastructure>.

<sup>83</sup> Ministry of Planning, Development, & Special Initiatives.

<sup>84</sup> “Backgrounder: China-Pakistan Economic Corridor,” *China Daily*, April 22, 2015, [http://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content\\_20503693.htm](http://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm).

<sup>85</sup> China Daily, “Backgrounder: China-Pakistan Economic Corridor.”

<sup>86</sup> New China, “Pakistan Views CPEC as Flagship Project of China’s Belt and Road Initiative.”

<sup>87</sup> New China, “Pakistan Views CPEC as Flagship Project of China’s Belt and Road Initiative.”

<sup>88</sup> Andrew Small, “Returning to the Shadows: China, Pakistan, and the Fate of CPEC” (The German Marshall Fund of the United States, September 2020), 9.

## E. THE GWADAR PORT PROJECT

If CPEC is the flagship of BRI, then Gwadar should be considered the flagship of CPEC.<sup>89</sup> However, before Gwadar was a flagship port project, it was, as Kamwal puts it, “a cluster of small, little-known fishing villages on the Makran coast of Pakistan.”<sup>90</sup> Gwadar is located at the mouth of the Strait of Hormuz and the oil-rich Middle East, between South Asia and the resource-rich Central Asia. In 1954, the United States Geological Service surveyed the Balochistan coast revealing Gwadar’s suitability for a deep-sea port, and in 1958 Pakistan purchased the site from the Sultanate of Oman for \$3 million.<sup>91</sup>

However, the project did not proceed until 2001 when Chinese Prime Minister Zhu Rongji announced that China would provide \$198 of the \$248 million required and that China Harbor Engineering Company would build the first phase.<sup>92</sup> During the first phase, the port was dredged to a depth of 14.5 meters, and three multipurpose ship berths, each up to 50,000 DWT (deadweight tonnage) with a 12.5-meter draft, and one service berth were built.<sup>93</sup> According to Kardon et al., the cargo berths were outfitted for “container, RO-RO (roll-on/roll-off), breakbulk, and heavy project cargo” with a capacity of 137,000 TEU (twenty-foot equivalent unit) per year and 868,000 tons of general and bulk cargo per year.<sup>94</sup> Phase 1 was completed in March 2007 and inaugurated by then President General Pervez Musharraf.<sup>95</sup>

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<sup>89</sup> Muhammad Zamir Assadi, “Gwadar Port: A Hallmark of Peaceful Development of CPEC Projects,” *Global Times*, March 29, 2021, <https://www.globaltimes.cn/page/202103/1219745.shtml>.

<sup>90</sup> Gurmeet Kamwal, “Pakistan’s Gwadar Port: A New Naval Base in China’s String of Pearls in the Indo-Pacific” (Center for Strategic and International Studies (CSIS), March 2018), 2.

<sup>91</sup> “Gwadar Port: ‘History-Making Milestones,’” *DAWN.Com*, April 14, 2008, <http://beta.dawn.com/news/297994/gwadar-port-history-making-milestones>.

<sup>92</sup> Small, *The China-Pakistan Axis: Asia’s New Geopolitics*, 100–101.

<sup>93</sup> Kardon, Kennedy, and Dutton, “China Maritime Report No. 7: Gwadar: China’s Potential Strategic Strongpoint in Pakistan,” 13.

<sup>94</sup> Kardon, Kennedy, and Dutton, 13–14.

<sup>95</sup> Mir Sherbaz Khetran, “The Potential and Prospects of Gwadar Port,” *Strategic Studies* 34/35 (2014): 71.

The same year, the Port Authority of Singapore (PSA) won the bid for the operation of the port and began the second phase of construction. Phase 2 includes deepening the harbor to accommodate 200,000-ton oil carriers and 100,000-ton container carriers, constructing two oil terminals, three container terminals, a bulk cargo terminal, and a grain handling terminal.<sup>96</sup> As Small writes, Phase 2 was intended to “take Gwadar from an overdeveloped fishing village to a genuine commercial hub,” yet he notes, “very little of ‘Phase 2’ was ever undertaken.”<sup>97</sup> According to Small, both sides blamed the other; PSA and some sections of the government blamed the Pakistani Navy for refusing to transfer 584 acres of land allotted for the port’s operational activities, while other sections of the Pakistani government accused PSA of failing to fulfill its commitments.<sup>98</sup> Whatever the case, the courts eventually decided that PSA was allowed to quit the 40-year management and development contract.<sup>99</sup> In 2013, China Overseas Port Holding Company (COPHC) took over the 40-year contract, providing the state-run Chinese firm control of port operations and development.<sup>100</sup> At the time, Information Minister Qamar Zaman Kaira told reporters that he hoped that under new management, and with a fresh injection of money, the port would become operational and begin aiding Pakistan’s ailing economy.<sup>101</sup>

## F. CONCLUSION

Over two decades ago, China invested millions of dollars in a sleepy fishing village in Pakistan, driven supposedly by purely “win-win” economic intentions. However, while the port has developed it has never prospered. Its dismal commercial record leads some to speculate that China’s continued interest in the port is driven by more than just commercial

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<sup>96</sup> Syed Fazl-e-Haider, “Gwadar Project in Second Phase,” *DAWN.Com*, June 27, 2005, <http://beta.dawn.com/news/145259/gwadar-project-in-second-phase>.

<sup>97</sup> Small, *The China-Pakistan Axis: Asia’s New Geopolitics*, 101.

<sup>98</sup> Small, 101.

<sup>99</sup> Khaleeq Kiani, “Singapore Allowed to Quit Port Contract,” *DAWN.Com*, August 29, 2012, <https://www.dawn.com/2012/08/29/singapore-allowed-to-quit-port-contract/>.

<sup>100</sup> Syed Irfan Raza, “China given Contract to Operate Gwadar Port,” *DAWN.Com*, February 18, 2013, <https://www.dawn.com/2013/02/18/china-given-contract-to-operate-gwadar-port/>.

<sup>101</sup> “Pakistan Approves Gwadar Port Transfer to China,” *DAWN.Com*, January 30, 2013, <https://www.dawn.com/2013/01/30/pakistan-approves-gwadar-port-transfer-to-china/>.

logic. Now, approaching a decade since COPHC took over the contract to develop and operate the port, has the port become more viable as a commercial hub? Or is it viable as anything else? The answer to these questions may shed light on why China has continued to see the port as a worthwhile investment. If the answer is that China indeed has geopolitical ambitions in Gwadar, then this casts the rest of China's port infrastructure investment along the 21st Century Maritime Silk Road in a whole new light.



### **III. GWADAR PORT'S COMMERCIAL VIABILITY**

#### **A. INTRODUCTION**

The Gwadar Port project is often spoken of in lofty terms as a future economic hub for the entire South Asian region. According to the Gwadar Port Authority website:

Gwadar port will become [the] gateway port for Pakistan and the region and a world-class maritime hub. Gwadar Port is to complement Karachi Port and Port Qasim in order to stimulate economic growth of Pakistan and in particular Balochistan utilizing the available resources of the country and also providing an outlet for land locked [sic] Central Asian Countries, western China and Afghanistan through transit trade and offering transshipment facilities.<sup>102</sup>

Some even envision Gwadar Port will become the “New Dubai” in Pakistan.<sup>103</sup> Yet, almost a decade and a half after the port’s inauguration, what are Gwadar’s viability as an economic gateway and transshipment hub? Is it on track to be a “New Dubai?” This chapter will assess whether Gwadar Port is a commercially viable port.

#### **B. METHODOLOGY**

To analyze this question, I will start by discussing Gwadar’s trade potential with the Central Asian Republics (CARs), Afghanistan, and western China. Next, I will evaluate the port’s commercial viability using a simple framework. First, I will assess Gwadar’s hinterland connectivity. A port’s commercial viability depends upon its connectivity with inland markets, connectivity which requires secure roads, rails, and pipelines.

Second, I will evaluate the regional stability in the Balochistan province where Gwadar Port is situated. Regional stability is an essential factor in Gwadar Port’s economic viability as a gateway port. As Ades and Chua write, regional instability can reduce trade flows by blocking trading routes and destroying transport networks, making transit routes unreliable, “especially in situations where governments have lost control and lawlessness

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<sup>102</sup> “Vision and Mission,” Gwadar Port Authority, accessed July 21, 2021, <http://www.gwadarport.gov.pk/vision.aspx>.

<sup>103</sup> “World Insights: China-Pakistan Economic Corridor Bears Fruit amid 70th Anniversary of Ties.”

prevail.”<sup>104</sup> They write, “Such disruptions are especially acute for landlocked countries, which rely on transit routes through neighboring countries for coastal access.”<sup>105</sup> These words are especially pertinent to Gwadar Port and the landlocked CARs, Afghanistan, and Xinjiang.

Third, I will examine whether Gwadar Port has the critical infrastructure necessary for development and growth. This section will look at the continuing water and electricity crisis in the region and assess its implications for the success of Gwadar Port.

### **C. MAIN FINDINGS**

Based on this framework, Gwadar Port is far from becoming an economic gateway for the region or even the most desirable transshipment port in Pakistan. First, Gwadar Port lacks sufficient hinterland connectivity to serve as a trade hub for Central Asia, Afghanistan, and China; neither does Gwadar have the capacity, infrastructure, or pipeline to serve as an energy hub. Second, Gwadar and the surrounding province face an intractable insurgency that puts CPEC projects and workers at risk. This violence and the political instability in the region will likely continue to plague Gwadar Port for the foreseeable future. Third, Gwadar Port continues to face chronic water and power shortages. Taking these factors into consideration and seeing that the nearby Chabahar and Karachi ports are far more desirable destinations for commercial shipping, Gwadar Port should not be considered a commercially viable port.

### **D. CHAPTER OUTLINE**

This chapter proceeds by examining Gwadar Port’s trade prospects in the surrounding region. Next, it evaluates Gwadar Port based on the commercial viability framework. First, it looks at Gwadar Port’s hinterland connectivity, specifically its road, railway, and pipeline connectivity. Second, it examines the political instability in Balochistan and ongoing insurgency and assesses its impact on Gwadar Port’s commercial viability. Third, it evaluates whether Gwadar Port has the essential

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<sup>104</sup> Ades and Chua, “Thy Neighbor’s Curse,” 289.

<sup>105</sup> Ades and Chua, 289.

infrastructure, specifically power and water, necessary to be a viable commercial port. Stepping back from this framework, the rest of the chapter assesses Gwadar Port's commercial competitiveness, examining its commercial activity to date and comparing the port to the commercial ports in Chabahar and Karachi.

## **E. GWADAR PORT'S TRADE PROSPECTS**

### **1. Central Asia Trade Prospects**

Chinese and Pakistani officials highlight Gwadar Port's potential to facilitate trade with Afghanistan and Central Asian countries, providing these countries access to the sea.<sup>106</sup> The Central Asian Republics have abundant natural resources: oil reserves are between 18 to 48 billion barrels, and gas reserves are 233 trillion cubic feet.<sup>107</sup> Shibasaki et al. write that Pakistani seaports, such as Gwadar, are promising gateways for Central Asian cargo "because most cities in Central Asia are closer to the Pakistani seaports than the ports in Russia, China, Iran, Georgia and the Baltic countries."<sup>108</sup> National Highway-55 (N55), or the Indus Highway, part of Central Asia Regional Economic Cooperation (CAREC) Corridor-5, will link Gwadar to markets in Central Asia.<sup>109</sup> Currently being rehabilitated and upgraded, the 747-kilometer highway will connect Pakistan to China and nine Central Asian states.<sup>110</sup> However, an Asian Development Bank report notes that Corridor 5 faces considerable challenges such as terrain, climate, elevation, and security in Afghanistan.<sup>111</sup>

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<sup>106</sup> "CPEC Bears Fruit amid 70th Anniversary of Pakistan-China Ties," *Pakistan Today*, May 20, 2021, <https://www.pakistantoday.com.pk/2021/05/20/cpec-bears-fruit-amid-70th-anniversary-of-pakistan-china-ties/>.

<sup>107</sup> Shah Afridi, Bibi, and Muhammad, "The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade," 23.

<sup>108</sup> Shibasaki et al., "Could Gwadar Port in Pakistan Be a New Gateway?," 2.

<sup>109</sup> Fariyal Mir, "Indus Highway (N55) under the Working Umbrella of (CAREC)," *AikQaum* (blog), August 25, 2021, <http://aikqaum.com/indus-highway-n55-under-the-working-umbrella-of-carec/>.

<sup>110</sup> Fatima Javed, "747 Km Highway Up-Gradation Started under CAREC," *Gwadar Pro*, August 23, 2021, <https://gwadarpro.pk/>.

<sup>111</sup> Mark Goh, Max Ee Khong Kie, and Julius Santos, "Central Asia Regional Economic Cooperation Corridor Performance Measurement and Monitoring: A Forward-Looking Retrospective" (Asian Development Bank, 2014), 11, <https://think-asia.org/bitstream/handle/11540/4085/carec-cpmm-forward-looking-retrospective.pdf?sequence=1>.

## 2. Afghanistan Trade Prospects

Geographically, Afghanistan is crucial to land routes connecting the CARs with Gwadar; connectivity routes joining the two must pass through Afghanistan.<sup>112</sup> As Khetran writes, if Gwadar is to become a gateway port for the CARs, peace must first be restored in Afghanistan.<sup>113</sup> Afghanistan itself can benefit from connectivity and trade coming from Gwadar. Transit trade from Gwadar to Afghanistan officially began two years ago with a trade ship from China; in January 2020, Gwadar Port received a vessel loaded with fertilizers from China and headed for Afghanistan.<sup>114</sup> According to the Pakistani embassy, the route between Gwadar Port and Kandahar is the shortest for transiting goods from any seaport to Afghan cities.<sup>115</sup> Despite the tumultuous events in Afghanistan, 500 tons of fertilizers were shipped out of Gwadar by a fleet of trucks headed for Afghanistan only weeks before the Taliban toppled the Afghan government.<sup>116</sup> However, only a trickle of Chinese products has continued to pass into Afghanistan from Pakistan, mainly from Karachi Port.<sup>117</sup>

## 3. Xinjiang Trade Prospects

Gwadar has great significance for the Xinjiang Uyghur Autonomous Region in western China, where China has set up major economic zones.<sup>118</sup> According to a Kashgar official, Gwadar will help Kashgar become a logistics center in Central Asia.<sup>119</sup> Some believe the port could have profound significance for Xinjiang's economic development

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<sup>112</sup> Mir Sherbaz Khetran, "Gwadar and Chabahar: Competition or Cooperation," *Strategic Studies* 38, no. 2 (2018): 49.

<sup>113</sup> Khetran, 49.

<sup>114</sup> "Afghan-China Transit Trade Embarks through Gwadar Seaport," *Ariana News*, January 16, 2020, <https://ariananews.af/afghan-china-transit-trade-embarks-through-gwadar-seaport/>.

<sup>115</sup> Ariana News, "Afghan-China Transit Trade Embarks through Gwadar Seaport."

<sup>116</sup> "Transit Trade to Afghanistan Continues via CPEC Gwadar Port," *China Pakistan Economic Corridor* (blog), August 18, 2021, <http://cpecinfo.com/transit-trade-to-afghanistan-continues-via-cpec-gwadar-port/>.

<sup>117</sup> Pakistan-China Institute, "Transit Trade to Afghanistan Continues via CPEC Gwadar Port."

<sup>118</sup> Khetran, "The Potential and Prospects of Gwadar Port," 79.

<sup>119</sup> Sha Liu and Heying Chen, "Gwadar Set to Be Regional Hub as Port Readies Launch," *Global Times*, March 15, 2015, <https://www.globaltimes.cn/content/916884.shtml>.

by serving as a major route to the Indian Ocean for Chinese goods.<sup>120</sup> According to Khetran, Gwadar Port is a cost-effective gateway for Chinese trade with the Middle Eastern Markets.<sup>121</sup> He writes that Gwadar Port substantially reduces the distance, and thus, the cost of getting Chinese goods to the market.<sup>122</sup> While Xinjiang is 4,500 kilometers from China's main seaports in the east, it is only 2,500 kilometers from Gwadar.<sup>123</sup> The other frequently mentioned main benefit for China is, as Khetran puts it, the opportunity to build a "safe, secure and cheaper energy supply to China" that can avoid the security challenges of the Strait of Malacca.<sup>124</sup>

## F. HINTERLAND CONNECTIVITY

If Gwadar Port is to be a commercial hub, then it must be connected to Pakistan's main industrial centers, which, as Garlick points out, "are far away in Gujranwala, Faisalabad and Lahore."<sup>125</sup> Similarly, if Gwadar is to be a gateway port connecting China with the Indian Ocean via an overland transport corridor, then, as Brewster writes, it will depend on the reliability of its overland connections—i.e., roads, railways, and pipelines.<sup>126</sup>

### 1. Road Connectivity

One critical highway connection necessary for Gwadar to become a gateway port is the Eastbay Expressway. Currently, Gwadar Port does not have a dedicated wide highway to connect it to the Pakistani highway system.<sup>127</sup> Trucks leaving with imported

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<sup>120</sup> Liu and Chen.

<sup>121</sup> Khetran, "The Potential and Prospects of Gwadar Port," 79.

<sup>122</sup> Khetran, 79.

<sup>123</sup> Kausar Takrim and Mustafa Afeef, "Prospects of Gwadar Port as a Hub Port," *Journal of Managerial Sciences* IX, no. 1 (n.d.): 92.

<sup>124</sup> Khetran, "The Potential and Prospects of Gwadar Port," 79.

<sup>125</sup> Garlick, "Deconstructing the China–Pakistan Economic Corridor," 524.

<sup>126</sup> Brewster, "Silk Roads and Strings of Pearls," 277.

<sup>127</sup> "Gwadar East-Bay Expressway," China-Pakistan Economic Corridor (CPEC) Official Website, accessed September 3, 2021, <http://www.cpec.gov.pk/project-details/32>.

shipments currently only have a 16-foot wide thoroughfare that runs through the city.<sup>128</sup> According to the official CPEC website, port operationalization necessitates the completion of the East-Bay expressway.<sup>129</sup> According to CPEC Authority Chairman Lt-Gen (ret'd) Asim Saleem Bajwa, the expressway is in the final stages of construction.<sup>130</sup> When completed, the 6-lane expressway will connect Gwadar Port to the Makran Coastal Highway.<sup>131</sup> While connecting Gwadar Port to Pakistan's highway system will facilitate the flow of cargo to and from the port, some experts, such as Small, see limited value in the project. As Small writes, "Given that the port was developed partly in order to reduce the bottleneck at Karachi, the Makran Coastal Highway was of limited use—the real value would only come when Gwadar was connected up to the rest of Pakistan."<sup>132</sup>

The other crucial overland connection for Gwadar Port to become the gateway to an overland transport corridor is the Karakoram Highway (KKH). As Hodge writes, "The success of Gwadar as a Chinese trading post hinges on the political and geological stability of the 1,300-kilometer Karakoram Highway (KKH), China's only overland link to Pakistan."<sup>133</sup> The history of the Karakoram Highway dates back to 1964, when China and Pakistan undertook to build a road linking Pakistan to western China. By 1978 the road was opened and renamed the KKH, or the "Sino-Pakistani Friendship Highway."<sup>134</sup> The highway is presently the only overland connection between Pakistan and China. The road winds up the mountainside to an elevation of 4,693 meters before crossing into China at Khunjerab Pass.<sup>135</sup> As Hodge puts it, without the KKH, there is no land route to Gwadar,

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<sup>128</sup> Ministry of Planning, Development, & Special Initiatives, "Gwadar East-Bay Expressway."

<sup>129</sup> Ministry of Planning, Development, & Special Initiatives, "Gwadar East-Bay Expressway."

<sup>130</sup> "Eastbay Expressway Gwadar to Be Completed in October: Asim Saleem Bajwa," CPEC Portal, May 3, 2021, <http://cpecinfo.com/eastbay-expressway-gwadar-to-be-completed-in-october-asim-saleem-bajwa/>.

<sup>131</sup> Ministry of Planning, Development, & Special Initiatives, "Gwadar East-Bay Expressway."

<sup>132</sup> Small, *The China-Pakistan Axis: Asia's New Geopolitics*, 101.

<sup>133</sup> Aaron Hodge, "Karakoram Highway: China's Treacherous Pakistan Corridor," *The Diplomat*, July 30, 2013, <https://thediplomat.com/2013/07/karakoram-highway-chinas-treacherous-pakistani-corridor/>.

<sup>134</sup> John W. Garver, "Development of China's Overland Transportation Links with Central, South-West and South Asia," *The China Quarterly* 185 (2006): 7, <https://doi.org/10.1017/S0305741006000026>.

<sup>135</sup> Garlick, "Deconstructing the China-Pakistan Economic Corridor," 524.

and “without a reliable land route to the port, Gwadar’s value decreases dramatically; and the KKH is anything but reliable.”<sup>136</sup>

Karakoram Highway faces many challenges to becoming a reliable thoroughfare for trade. One important issue is its inadequate width. In November 2016, a special senate committee on the China-Pakistan Economic Corridor highlighted the KKH’s insufficient width to accommodate the increased traffic load that will be generated from CPEC.<sup>137</sup> According to the report, “With the present width of the KKH the increased traffic will move at a snail’s pace and negotiating frequent bends and turns will require high skills on the part of drivers.”<sup>138</sup> This is a road that already experiences frequent fatal accidents, the report noted.<sup>139</sup> “On the whole,” the report concluded, “driving on KKH will be a highly risky and time-consuming undertaking.”<sup>140</sup>

Pakistan has been working on upgrading KKH for many years. In 2006, China’s State-owned Assets Supervision and Administration Commission (SASAC) and Pakistan Highway Administration agreed to widen the highway from 10 to 30 meters, including, crucially, an all-weather upgrade.<sup>141</sup> However, much of the early work ended up underwater. On January 4, 2010, an earthquake caused a landslide, creating a 100-meter-deep lake across 27 kilometers of the highway.<sup>142</sup> It took five years to build the bridges and tunnels to restore the road link.<sup>143</sup> The landslide, and the earthquake that caused it, are not rare occurrences. Derbyshire et al. write, “High rates of natural incision, frequent seismic shock, and excavation of slopes during construction of the highway have all

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<sup>136</sup> Hodge, “Karakoram Highway.”

<sup>137</sup> Syed Irfan Raza, “Karakoram Highway Inadequate for CPEC Traffic, Says Senate Panel,” *DAWN.Com*, November 7, 2016, <http://www.dawn.com/news/1294813>.

<sup>138</sup> Raza.

<sup>139</sup> Raza.

<sup>140</sup> Raza.

<sup>141</sup> Vijay Sakhujia, “The Karakoram Corridor: China’s Transportation Network in Pakistan,” *China Brief* 10, no. 20 (October 2020), <https://jamestown.org/program/the-karakoram-corridor-chinas-transportation-network-in-pakistan/>.

<sup>142</sup> Hodge, “Karakoram Highway.”

<sup>143</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 524.

contributed to mass movement of rock and debris. Rapid downslope transfer of rock and debris is common in the Karakoram, especially in the gorge sections of the Karakoram Highway.”<sup>144</sup> Much work is left to make KKH adequate for the high traffic load expected, and much more will be required to maintain it.

Landslides and earthquakes are not the only forces of nature with which the KKH must contend. As Hodge points out, floods from glacial runoff during the summer can wash out bridges, stopping traffic for weeks.<sup>145</sup> The winter also presents challenges. During the winter, the Khunjerab Pass closes due to heavy snow; it is only open between 1 May and 31 December.<sup>146</sup> The winter also brings other harmful effects, such as frost shattering, which slowly disintegrates the rock as water freezes and expands in the pores and cracks.<sup>147</sup> Recognizing the KKH is in desperate need of improvement, China and Pakistan signed a memorandum of understanding in 2013 to oversee the upgrade of the KKH.<sup>148</sup> Some projects are completed, while others, such as the section between Thakot and Raikot in Khyber Pakhtunkhwa, are ongoing (see Figure 1).<sup>149</sup> It may be considered by some to be the “eighth wonder of the world,” but until it is upgraded, it will fail to serve as an overland link between Gwadar and inland markets.<sup>150</sup>

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<sup>144</sup> Edward Derbyshire, Monique Fort, and Lewis A. Owen, “Geomorphological Hazards along the Karakoram Highway: Khunjerab Pass to the Gilgit River, Northernmost Pakistan,” *Erdkunde* 55, no. 1 (2001): 58.

<sup>145</sup> Hodge, “Karakoram Highway.”

<sup>146</sup> “Karakoram Highway, One of the Highest Paved Roads in the World,” [dangerousroads.org](http://dangerousroads.org), accessed September 3, 2021, <https://www.dangerousroads.org/asia/pakistan/3334-karakoram-highway-pakistan-2.html>.

<sup>147</sup> Derbyshire, Fort, and Owen, “Geomorphological Hazards along the Karakoram Highway,” 49.

<sup>148</sup> Hodge, “Karakoram Highway.”

<sup>149</sup> Syed Irfan Raza, “China to Finance Three More Road Projects under CPEC,” *DAWN.Com*, December 27, 2016, <http://www.dawn.com/news/1304619>.

<sup>150</sup> “Karakoram Highway’s Gwadar Link Likely,” *DAWN.Com*, July 5, 2006, <http://beta.dawn.com/news/200132/karakoram-highway-s-gwadar-link-likely>.



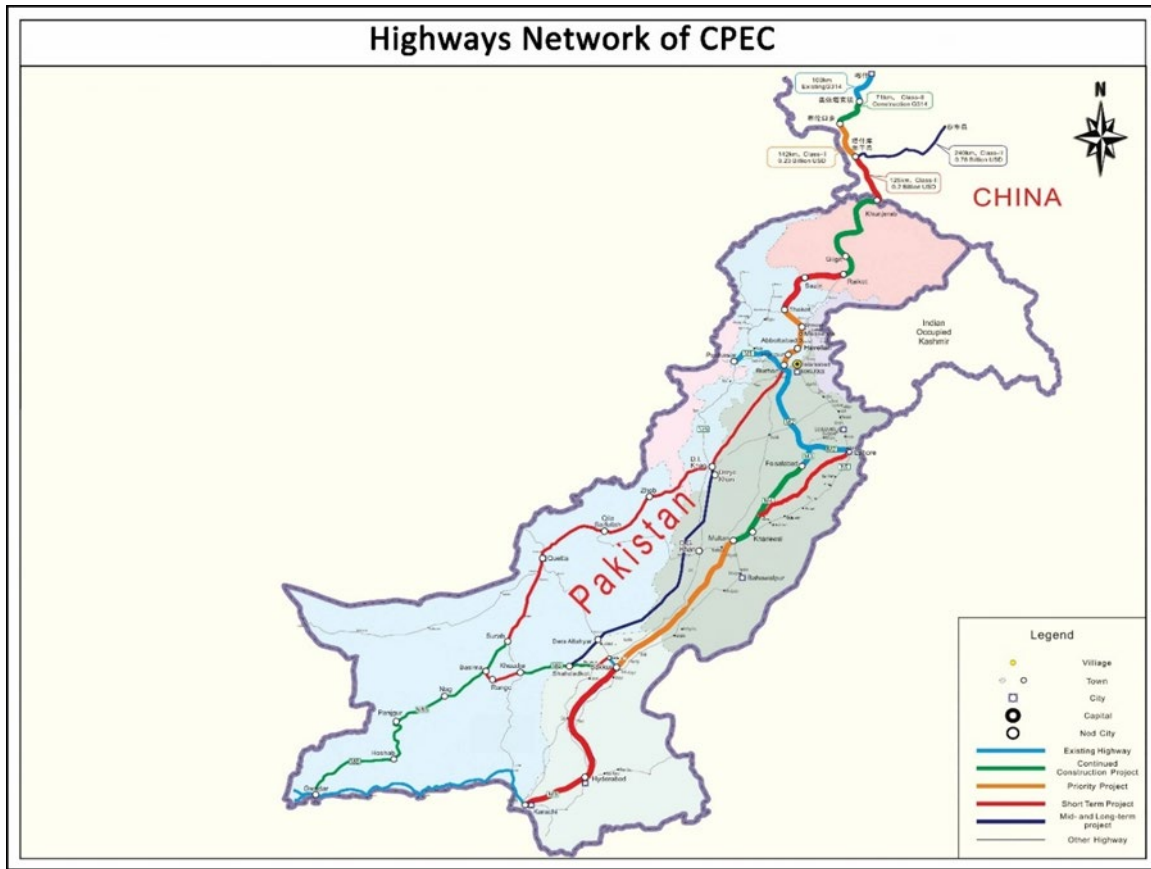


Figure 1. Highway Network of CPEC<sup>151</sup>

## 2. Rail Connectivity

If Gwadar is to become a gateway port, it will require more than just highway connectivity. Until Pakistan’s highways receive all-weather upgrades, they will be unreliable due to the harsh environment. Even then, earthquakes and landslides will continue to cause blockages and delays. Additionally, the KKH, the sole connection between China and Pakistan, is closed for months every year under the best circumstances. An additional overland connection is required, and a railway offers a good option.

<sup>151</sup> Source: Ministry of Planning, Development, & Special Initiatives, “China Pakistan Economic Corridor Maps,” China Pakistan Economic Corridor Official Website, accessed September 16, 2021, <http://www.cpec.gov.pk/maps>.

According to Arvis et al., rail transport has several advantages over road transport, particularly for landlocked countries.<sup>152</sup> First, rail transport can be more cost-effective than road transport, in terms of lower tariffs and the lower cost of transporting low-value bulk products—which landlocked low-development countries mainly export.<sup>153</sup> Second, railways can offer faster, more reliable transit times.<sup>154</sup> They write, “These advantages can come in part from higher speeds, but mostly from shorter border-crossing wait times and fewer en-route delays.”<sup>155</sup> Furthermore, rail transport provides better security in transit than road transport because rail-borne containers are less susceptible to theft than shipments transported by road.<sup>156</sup>

However, Arvis et al., explain that railways are not financially viable in certain situations. Because of high fixed costs, such as infrastructure renewal and maintenance, as well as the cost of operating the trains, railways must operate above a minimum traffic volume threshold to be financially viable.<sup>157</sup> They calculate this threshold as 250,000 net tons per year to maintain the railway in the short term and 1 million net tons per year to maintain the railway in the long term.<sup>158</sup> Transport distance is another important factor in the financial viability of the railway. According to Arvis et al., freight must typically be transferred to another transport mode before reaching the final destination, and railway transport has high terminal costs, whereas road transport does not.<sup>159</sup> Thus, railways must travel a minimum distance for their lower en-route costs to overcome the terminal costs.<sup>160</sup>

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<sup>152</sup> Jean-Francois Arvis, Graham Smith, and Robin Carruthers, *Connecting Landlocked Developing Countries to Markets: Trade Corridors in the 21st Century* (Herndon: World Bank Publications, 2011), 133, <http://ebookcentral.proquest.com/lib/ebook-nps/detail.action?docID=681192>.

<sup>153</sup> Arvis, Smith, and Carruthers, 133.

<sup>154</sup> Arvis, Smith, and Carruthers, 133.

<sup>155</sup> Arvis, Smith, and Carruthers, 133.

<sup>156</sup> Arvis, Smith, and Carruthers, 134.

<sup>157</sup> Arvis, Smith, and Carruthers, 133.

<sup>158</sup> Arvis, Smith, and Carruthers, 133.

<sup>159</sup> Arvis, Smith, and Carruthers, 134.

<sup>160</sup> Arvis, Smith, and Carruthers, 134.

Railways must operate above a minimum traffic volume and travel the minimum distance to overcome the terminal costs; otherwise, rail freight is not financially viable. If it is not financially viable, its use will decline, and so will the railway infrastructure and services, which Arvis et al. say is the situation of many land-locked developing countries.<sup>161</sup> The Pakistani railway system is a good example of this. According to Shibasaki et al., the railway services constitute only 4% of the total freight flow due to a lack of railroad freight cars, single tracks railroad lines, the substandard surface conditions of national roads, and poor port access service capacity.<sup>162</sup> Upgrading Pakistan's rail system has long been in the works. China understands the importance of railway connectivity for Gwadar Port's success. In addition to taking up the Gwadar project in 2001, Garver writes that China also undertook to upgrade Pakistan's rail system.<sup>163</sup> According to Garver, China also agreed to provide Pakistan \$250 million to purchase 69 locomotives and 175 rail coaches from China as well as to upgrade Pakistan's ability to locally produce rail coaches and locomotives.<sup>164</sup>

China is also helping Pakistan expand and upgrade the Main Line one (ML-1) railway, which includes linking Gwadar with Pakistan's main east-west rail line and Iran's rail systems.<sup>165</sup> According to the Chairman of the CPEC Authority, the completion of ML-1 will link Gwadar by railway to the rest of the country.<sup>166</sup> As Garver puts it, Gwadar will be connected "with Bandar Abbas in the west, Karachi in the East and Rawalpindi in the

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<sup>161</sup> Arvis, Smith, and Carruthers, 133.

<sup>162</sup> Shibasaki et al., "Could Gwadar Port in Pakistan Be a New Gateway?," 5.

<sup>163</sup> Garver, "Development of China's Overland Transportation Links with Central, South-West and South Asia," 10.

<sup>164</sup> Garver, 10.

<sup>165</sup> "Gwadar to Be Linked Through Railway," *Belt & Road News* (blog), September 30, 2020, <https://www.beltandroad.news/2020/09/30/gwadar-to-be-linked-through-railway-line/>.

<sup>166</sup> Belt & Road News, "Gwadar to be Linked Through Railway."

north.”<sup>167</sup> According to Asim Bajwa, the Special Assistant to the Prime Minister on Information and Broadcasting, the ML-1 project is historic for logistic infrastructure; the \$6.8 billion project is the biggest ever to be executed under CPEC.<sup>168</sup> According to the official CPEC website, the 1,872-kilometer track will run from Karachi to Peshawar, and the project’s scope entails doubling the entire track, laying new track to raise the speed of passenger trains to 160 kilometers per hour and freight trains to 120 kilometers per hour, providing a computer-based signaling and control system, and improvements to grade separation for the safety of train operations.<sup>169</sup> The project also includes establishing the Havelian dry port, which will help in meeting the future CPEC freight traffic.<sup>170</sup> According to the CPEC website, the dry port will act as a dry port/container terminal for freight transiting the KKH and provide transshipment for loading/unloading on railway wagons.<sup>171</sup> According to Yusufzai, ML-1 will increase line capacity “from 34 to 171 trains each way per day, freight volumes from 6 to 35 million tons per annum by 2025, the share of freight transport volume from less than 4 percent to 20 percent.”<sup>172</sup> The Chief Executive of Pakistan Railways, Aftab Akbar, briefed the Sub-Committee of the Senate Standing Committee on Railways that the ML-1 upgrade and establishment of the Havelian Dry Port are early harvest projects expected to be completed by 2025.<sup>173</sup> Currently, the only thing standing in the way of construction is an agreement on the finances for ML-1. As of the end of July 2021, the Pakistani government has asked China to provide loans in U.S. dollars

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<sup>167</sup> Garver, “Development of China’s Overland Transportation Links with Central, South-West and South Asia,” 9.

<sup>168</sup> Belt & Road News, “Gwadar to Be Linked Through Railway.”

<sup>169</sup> “Expansion and Reconstruction of Existing Line ML-1,” China-Pakistan Economic Corridor (CPEC) Official Website, accessed August 23, 2021, <http://cpec.gov.pk/project-details/30>.

<sup>170</sup> Khalid Hasnain, “Railway Project Sent to Chinese Bank for Approval of \$6bn Loan,” *DAWN.Com*, April 21, 2021, <https://www.dawn.com/news/1619407>.

<sup>171</sup> “Havelian Dry Port (450 M. Twenty-Foot Equivalent Units),” China-Pakistan Economic Corridor (CPEC) Official Website, accessed September 3, 2021, <http://www.cpec.gov.pk/project-details/31>.

<sup>172</sup> Amin Yusufzai, “Rail Connectivity of Gwadar with Other Parts of Pakistan Not a Priority: Officials,” *Propakistani* (blog), April 6, 2019, <https://propakistani.pk/2019/04/06/rail-connectivity-of-gwadar-with-other-parts-of-pakistan-not-a-priority-officials/>.

<sup>173</sup> Yusufzai.

instead of Chinese Renminbi , or else in a combination of the two currencies.<sup>174</sup> But while China and Pakistan are expected to reach an agreement on finances on ML-1 soon, it may be a while until Gwadar is connected to the country’s railway system. According to Yusufzai, Pakistan railway officials do not deem railway connectivity of Gwadar Port with the rest of the country a priority.<sup>175</sup> According to Yusufzai, railway officials briefing the Sub-Committee of Senate Standing Committee on Railways said that linking Gwadar to the country’s railway system ranks behind the rest of the ML-1 upgrade and the establishment of the Havelian dry port, which will take at least five years to complete.<sup>176</sup> It will be even longer before Gwadar is connected by railway to China. The railway from Havelian to the Khunjrab at the China border was ranked last of the projects briefed to the subcommittee.<sup>177</sup> The 1,059-kilometer Havelian-Kahi rail line is listed as a “new construction project in far future” on the CPEC Official website (see Figure 2). If Gwadar is to become a gateway for a trade corridor to China, then Pakistan’s railway network must be upgraded and extended to China.

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<sup>174</sup> “ML-1 Rail Project: Pakistan, China Negotiating Financing Agreement,” *Geo New*, July 28, 2021, <https://www.geo.tv/latest/362134-ml-1-rail-project-pakistan-china-negotiating-financing-agreement>.

<sup>175</sup> Yusufzai, “Rail Connectivity of Gwadar with Other Parts of Pakistan Not a Priority.”

<sup>176</sup> Yusufzai.

<sup>177</sup> Yusufzai.

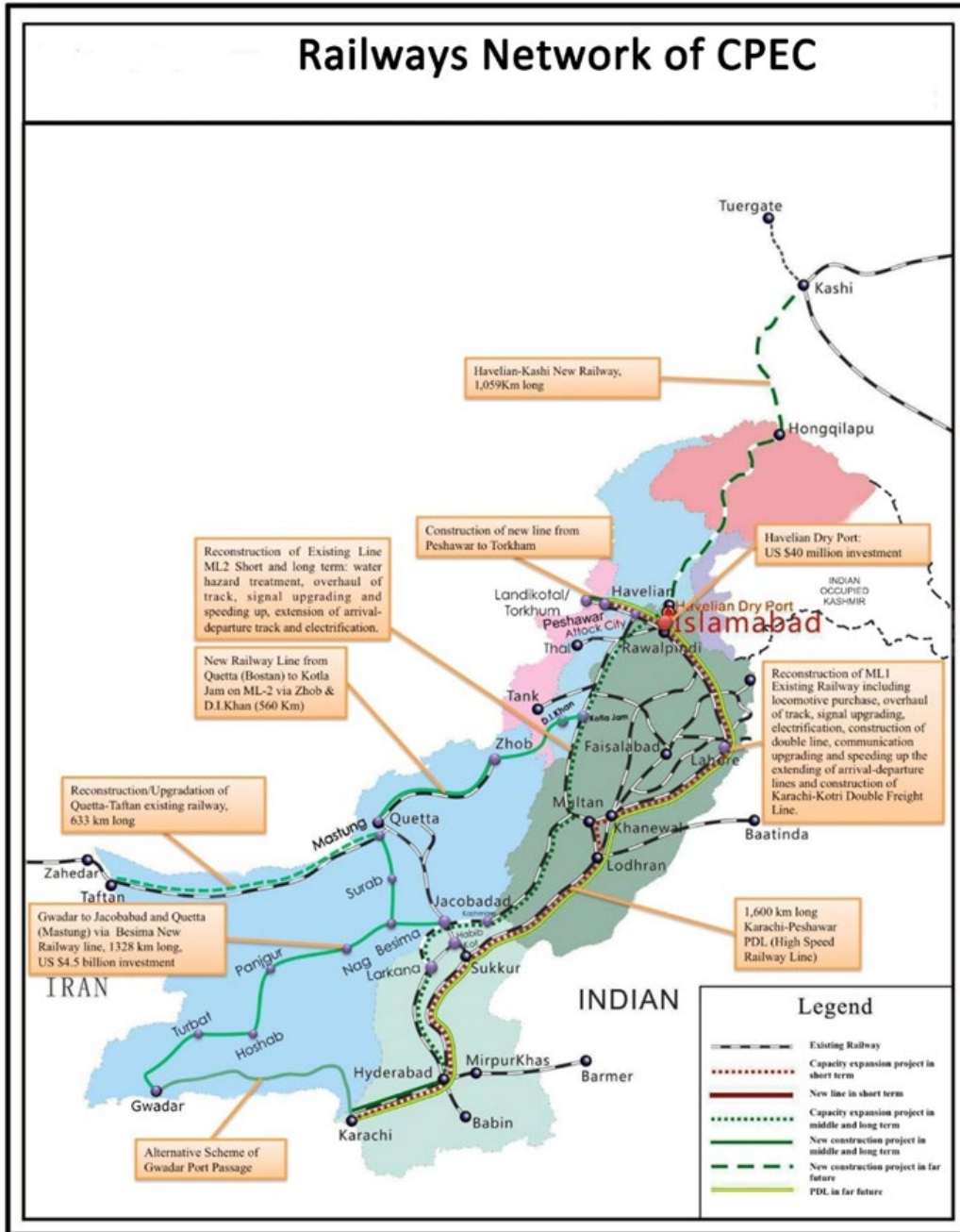


Figure 2. Railway Network of CPEC<sup>178</sup>

<sup>178</sup> Source: Ministry of Planning, Development, & Special Initiatives, “China Pakistan Economic Corridor Maps.”

### 3. Energy Corridor

One of the most important cargoes that could transit from Gwadar to China via road and rail is oil. China surpassed the United States in 2017 to become the world's largest crude oil importer, surpassing the United States in 2017.<sup>179</sup> According to Cordesman, China imports approximately 70% of its total petroleum consumption, 40% of which comes from the Gulf.<sup>180</sup> As China's economy continues to grow, so will its demand for oil, most of which must come by sea. Len notes that by 2035, China's oil imports could be as high as 76%.<sup>181</sup> Given these projections, he writes, it is likely that the country's already large energy shipments crossing the Indian Ocean will also increase.<sup>182</sup> In 2016, approximately 90% of China's maritime crude oil shipments passed through the South China Sea.<sup>183</sup> Over the years, China's vulnerable dependency on seaborne energy imports has made Chinese policy makers and security analysts alike anxious. Deemed the "Malacca Dilemma," this vulnerability as Storey explains, has long term strategic implications. He notes that "Beijing fears that during a national security crisis ships carrying energy resources could be interdicted by hostile naval forces. Any disruption to the free flow of energy resources into China could derail the economic growth on which the Chinese government depends to shore-up its legitimacy and pursue its great power ambitions."<sup>184</sup> According to Storey, the term "Malacca Dilemma" is attributed to Hu Jintao, who in November 2003 called for new

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<sup>179</sup> "China Surpassed the United States as the World's Largest Crude Oil Importer in 2017," U.S. Energy Information Administration, December 31, 2018, <https://www.eia.gov/todayinenergy/detail.php?id=37821>.

<sup>180</sup> Anthony Cordesman, "China in the Gulf: A New Partnership with Iran?," Center for Strategic & International Studies, July 15, 2020, <https://www.csis.org/analysis/china-gulf-new-partnership-iran>.

<sup>181</sup> Christopher Len, "China's 21st Century Maritime Silk Road Initiative, Energy Security and SLOC Access," *Maritime Affairs: Journal of the National Maritime Foundation of India* 11, no. 1 (2015): 4, <https://doi.org/10.1080/09733159.2015.1025535>.

<sup>182</sup> Len, 4.

<sup>183</sup> "More than 30% of Global Maritime Crude Oil Trade Moves through the South China Sea," U.S. Energy Information Administration, August 27, 2018, <https://www.eia.gov/todayinenergy/detail.php?id=36952>.

<sup>184</sup> Ian Storey, "China's 'Malacca Dilemma,'" *China Brief* 6, no. 8 (April 2006), <https://jamestown.org/program/chinas-malacca-dilemma/>.

ways to mitigate China's vulnerability to certain major powers determined to control the strait.<sup>185</sup>

Gholizadeh et al. believe that Gwadar can replace Malacca in the oil route from the Middle East to China.<sup>186</sup> Indeed, articles emphasize the potential for China to receive oil shipments via roads, railways, and pipelines between Gwadar and Xinjiang.<sup>187</sup> Proponents of a Gwadar-Kashgar energy route primarily focus on the benefit in terms of the reduction in distance and reduction of risk. Analysts like Shaikh et al. have provided detailed quantitative cost analysis of the prospects of transporting oil from Gwadar to China. According to their feasibility study, they claim that the cost of transporting oil from the Middle East to China via CPEC would be the quickest and cheapest option.<sup>188</sup> Often highlighted in the discussion of a CPEC pipeline is the distance reduction of offloading oil at Gwadar and transporting it directly to China through the corridor; typical figures approximate the journey reducing from 14,500 kilometers to approximately 2,500 kilometers.<sup>189</sup>

However, transport costs are a matter of more than just distance. Limão and Venerables studied how the determinants of transport costs depend both on countries' geography and their level of infrastructure, and they found that "geography, infrastructure, administrative barriers, and the structure of the shipping industry" are also important factors for determining transport costs and trade volumes.<sup>190</sup> According to Limão and Venerables, per unit distance, land legs are around seven times more costly than sea

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<sup>185</sup> Storey.

<sup>186</sup> Gholizadeh, Madani, and Saneinia, "A Geoeconomic and Geopolitical Review of Gwadar Port on Belt and Road Initiative," 346–47.

<sup>187</sup> Ting Wang, "China Gets 40-Year Rights at Pakistani Port," *China Daily*, April 14, 2015, [http://www.chinadaily.com.cn/world/2015-04/14/content\\_20433493.htm](http://www.chinadaily.com.cn/world/2015-04/14/content_20433493.htm).

<sup>188</sup> Faheemullah Shaikh, Qiang Ji, and Ying Fan, "Prospects of Pakistan–China Energy and Economic Corridor," *Renewable and Sustainable Energy Reviews* 59 (June 1, 2016): 260, <https://doi.org/10.1016/j.rser.2015.12.361>.

<sup>189</sup> Wang, "China Gets 40-Year Rights at Pakistani Port."

<sup>190</sup> Nuno Limão and Anthony J. Venables, "Infrastructure, Geographical Disadvantage, Transport Costs, and Trade," *The World Bank Economic Review* 15, no. 3 (2001): 470.



legs.<sup>191</sup> Notably, oil offloaded in Xinjiang would still need to travel 4,500 kilometers across inland China to the eastern ports of Shanghai and Beijing.<sup>192</sup> Additionally, the authors found that in coastal countries like Pakistan, poor infrastructure—which they defined as transport and communications infrastructure—comprises 40% of predicted transport costs.<sup>193</sup> Furthermore, they found that raising transport costs by 10% typically reduces trade volumes by approximately 20%. Based on Limão and Venables’ findings, the cost reduction of offloading oil in Gwadar might not be so clear-cut.

Some believe that transporting China’s oil via CPEC is not a feasible solution to the Malacca Dilemma. Garver explains one major issue, Gwadar Port’s capacity:

Another question surrounds the draft—defined as the dredged depth—of Gwadar port. As previously stated, the port can currently receive vessels up to 50,000 DWT, with a draft of 12.5 metres. Gwadar has three 200-metre berths plus a 100-metre service berth. This capacity is insufficient to receive even mid-sized cargo carriers and oil tankers, severely limiting the utility and commercial success of the port at present. Further dredging of the approach channels and port is scheduled, but so far the depth to be dredged has not been specified. Since all models of large cargo carriers and oil tankers are over 200 metres in length and have drafts of between 16 metres and 35 metres, to receive even those of medium size the entry to Gwadar port needs not only to be dredged further, but its berths also need to be extended or new ones built.<sup>194</sup>

Some in China are also less optimistic about the feasibility of an energy corridor through Gwadar Port. According to an article in the *Global Times*, Chinese experts believe that Gwadar cannot satisfy China’s oil import demand based on the port’s capacity.<sup>195</sup> Wu Minghua, a shipping analyst, notes that, in 2016, the port had a handling capacity of one million tons per year, a mere fraction of China’s total oil imports which were over 335

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<sup>191</sup> Limão and Venables, 452.

<sup>192</sup> Khan, “Geo-Economic Imperatives of Gwadar Sea Port and Kashgar Economic Zone for Pakistan and China,” 93.

<sup>193</sup> Limão and Venables, “Infrastructure, Geographical Disadvantage, Transport Costs, and Trade,” 452.

<sup>194</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 525.

<sup>195</sup> Li, “Gwadar Port Benefits to China Limited.”

million tons the previous year.<sup>196</sup> According to Wu Minghua, “Gwadar will not become China’s main trade hub with Persian Gulf countries, not to mention serve as an alternative route to the Malacca Straits.”<sup>197</sup>

Many foreign observers believe that oil pipelines could enable China to reduce its dependence on oil imports that must transit through the Strait of Malacca. For instance, some suggest a China–Pakistan oil pipeline from Gwadar Port.<sup>198</sup> In 2016, an article in *The Express Tribune* claimed Pakistan had given the task of planning an oil pipeline from Gwadar to western China to the state construction firm Frontier Works Organization (FWO).<sup>199</sup> According to the article, then Prime Minister Nawaz Sharif had proposed constructing an oil pipeline during a visit to China.<sup>200</sup> An article in *The Nation* claimed that a Gwadar-Kashgar pipeline would be capable of carrying one million barrels per day and allow China to shift around 17 percent of its oil imports to the pipeline.<sup>201</sup> Proponents of the pipeline frame it as a shorter and less risky alternative to the traditional route from the Middle East to China.<sup>202</sup>

However, some analysts are unconvinced of the pipeline’s feasibility and doubt whether the project will proceed. One obstacle confronting the pipeline is geography. As Erickson and Collins write, “The pipeline would have to be constructed in some of the world’s most challenging terrain.”<sup>203</sup> The pipeline would be constructed across the same

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<sup>196</sup> Li.

<sup>197</sup> Li.

<sup>198</sup> Gholizadeh, Madani, and Saneinia, “A Geoeconomic and Geopolitical Review of Gwadar Port on Belt and Road Initiative,” 344.

<sup>199</sup> Zafar Bhutta, “Pakistan Working on Gwadar-China Oil Pipeline,” *The Express Tribune*, July 12, 2016, sec. News, <http://tribune.com.pk/story/1140506/crude-export-pakistan-working-gwadar-china-oil-pipeline>.

<sup>200</sup> Bhutta.

<sup>201</sup> Fawad Yousafzai, “China to Build Mega Oil Pipeline from Gwadar to Kashgar,” *The Nation*, July 18, 2021, <https://nation.com.pk/13-Jun-2016/china-to-build-mega-oil-pipeline-from-gwadar-to-kashgar>.

<sup>202</sup> Shaikh, Ji, and Fan, “Prospects of Pakistan–China Energy and Economic Corridor,” 261; Gholizadeh, Madani, and Saneinia, “A Geoeconomic and Geopolitical Review of Gwadar Port on Belt and Road Initiative,” 344.

<sup>203</sup> Erickson and Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” 102.

geography as the Karakoram Highway, which Garlick explains as “hanging valleys, waterfalls, glaciers, snow-fields, lateral and terminal moraines and cirques: in other words, extremely difficult terrain for the building and maintenance of pipelines.”<sup>204</sup> Elevation rise is another hurdle. As Erickson and Collins observe, the pipeline would need to pump oil from Gwadar, which is at sea level, up to the Khunjerab Pass, which is at 15,400 feet, “requiring massive pumping power and steady electrical supplies in remote areas.”<sup>205</sup> They argue that other pipelines, raised as examples of the technical feasibility, fail to be comparable. Trans-Ecuadorian Pipeline, for example, which climbs over 13,000 feet from sea level, is approximately one-fifth the length of the proposed Pakistan-China pipeline.<sup>206</sup> Problematic terrain and high altitudes of the proposed Gwadar-Kashgar pipeline would make constructing and maintaining the pipeline both challenging and dangerous.

The other main issue with a Gwadar-Kashgar oil pipeline is the cost of constructing the pipeline. Mei Xinyu, a Chinese Ministry of Commerce representative, remarked in the *Global Times* that the cost of pumping oil over the Karakorum mountain range to Xinjiang would be over 16 times higher than the conventional seaborne route from Saudi Arabia to Eastern China.<sup>207</sup> Mei notes that due to high elevations, temperatures as low as 30 degrees Celsius, and earthquakes, “the pipelines need extra heating and insulating equipment as well as high-power pumping stations,” which would increase the cost.<sup>208</sup> According to an article in Dawn, The Frontier Works Organization estimates the pipeline would cost \$10 billion.<sup>209</sup> Mei notes, “For the same amount of investment, it’s more economically viable to build very large crude carriers than oil pipelines.”<sup>210</sup> Erickson and Collins came to a

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<sup>204</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 524.

<sup>205</sup> Erickson and Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” 102.

<sup>206</sup> Erickson and Collins, 103.

<sup>207</sup> Li, “Gwadar Port Benefits to China Limited.”

<sup>208</sup> Li, 131.

<sup>209</sup> Zafar Bhutta, “From Gwadar-Kashgar: Crude Oil Pipeline Requires \$10 Billion Investment,” *The Express Tribune*, May 18, 2018, sec. News, <http://tribune.com.pk/story/1712888/2-gwadar-kashgar-crude-oil-pipeline-requires-10-billion-investment>.

<sup>210</sup> Li, “Gwadar Port Benefits to China Limited.”

similar conclusion in 2010. They calculated that shipping oil by sea from the Persian Gulf to eastern China could cost as little as US\$2.00 per barrel, while it would cost up to 10 dollars to move a barrel of oil to western China via pipeline, which does not include the cost it would take to pipe the oil thousands of kilometers to the major east coast demand centers, which they calculate could exceed fifteen dollars a barrel.<sup>211</sup> Thus, as Mei concludes, pipeline construction “will not likely take place” due to the formidable geography and high cost.<sup>212</sup>

Even if the pipeline were constructed, oil pipelines would not provide the volume necessary to keep pace with China’s oil demand. According to an article in *The Express Tribune*, the capacity of the oil pipeline proposed by the engineering company Frontier Works Organization (FWO) in 2018 would be one million barrels per day.<sup>213</sup> This would supply only a small fraction of China’s daily oil needs. In 2019, China’s annual crude oil imports averaged 10.1 million barrels per day, increasing by nearly one million b/d from the 2018 average.<sup>214</sup> Last year’s oil imports rose 7.3% to a record of 10.85 million barrels per day.<sup>215</sup> As the world’s top oil importer, this oil demand is likely only to increase. As Erickson and Collins concluded back in 2010, “In the end, pipelines are not likely to increase Chinese oil import security in quantitative terms, because the additional volumes they bring in will be overwhelmed by China’s demand growth; the country’s net reliance on seaborne oil imports will grow over time, pipelines notwithstanding.”<sup>216</sup>

In addition to geography, cost, and capacity issues, an oil pipeline is no less vulnerable to disruption than seaborne imports. As Erickson and Collins explain, pipeline

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<sup>211</sup> Erickson and Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” 104.

<sup>212</sup> Li, “Gwadar Port Benefits to China Limited.”

<sup>213</sup> Bhutta, “From Gwadar-Kashgar: Crude Oil Pipeline Requires \$10 Billion Investment.”

<sup>214</sup> “China’s Crude Oil Imports Surpassed 10 Million Barrels per Day in 2019,” U.S. Energy Information Administration, March 23, 2020, <https://www.eia.gov/todayinenergy/detail.php?id=43216>.

<sup>215</sup> Muyu Xu and Aizhu Chen, “Saudi Arabia Pips Russia to Be China’s Biggest Oil Supplier in 2020,” *Reuters*, January 20, 2021, <https://www.reuters.com/article/china-economy-trade-oil-int-idUSKBN29P0ZG>.

<sup>216</sup> Erickson and Collins, “China’s Oil Security Pipe Dream: The Reality, and Strategic Consequences, of Seaborne Imports,” 91.

oil imports are perhaps more at risk than seaborne oil imports.<sup>217</sup> They note that, while tankers at sea can be rerouted, pipelines are fixed infrastructure vulnerable to sabotage and military interdiction.<sup>218</sup> They write, “Pipelines offer a wealth of targeting options to nonstate actors and opposing militaries. Destroying or damaging the pipeline or critical oil pipeline infrastructure would be relatively simple especially for modern military forces equipped with precision-guided munitions.”<sup>219</sup> On the other hand, Erickson and Collins explain why a maritime blockade, the perceived danger of the Malacca Dilemma, would be difficult to conduct effectively:

Seaborne shipping is very flexible and can be routed around disruptions. For this reason, pipeline plans predicated on the idea that bypassing the Strait of Malacca increases oil security are fundamentally flawed. Even if Malacca were completely sealed off by blockade or accident, tankers could be diverted through the Sunda, Lombok, or other passages with some disruption in deliveries and at an additional cost of as little as one or two dollars per barrel.<sup>220</sup>

Additionally, an oil pipeline crossing Pakistan to China would have to cross, as Erickson and Collins put it, “territory rife with insurgent activity and general instability.”<sup>221</sup> The pipeline would run through Baluchistan where, as Panneerselvam notes, insurgents have strongly opposed China’s CPEC projects in the region, attacking Chinese workers in Pakistan on several occasions.<sup>222</sup> Given the challenging geography, high cost, low capacity, and increased risk, building an oil pipeline from Gwadar Port to China does not appear to be a feasible solution to China’s “Malacca Dilemma.”

## **G. REGIONAL STABILITY**

Gwadar Port’s economic viability also depends upon Pakistan’s political stability. However, Gwadar Port is in Balochistan, a region rife with instability fueled by a long-

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<sup>217</sup> Erickson and Collins, 104–5.

<sup>218</sup> Erickson and Collins, 92,105.

<sup>219</sup> Erickson and Collins, 105.

<sup>220</sup> Erickson and Collins, 92.

<sup>221</sup> Erickson and Collins, 103.

<sup>222</sup> Panneerselvam, “Maritime Component of China–Pakistan Economic Corridor (CPEC),” 42.

running insurgency by various Baloch ethnic militias. Balochistan is a province in the southwest of Pakistan bordering Iran and Afghanistan. As Aslam writes, it is a province “rich in oil, natural gas and other mineral resources and has 800 miles of an underdeveloped coastline with an abundance of ocean resources.”<sup>223</sup> Despite these economic advantages, as Kamwal explains, Balochistan remains impoverished and the least developed of Pakistan’s provinces, which has contributed to a sense of resentment and a source of political friction.<sup>224</sup> Zurutuza explains, “The Sui region epitomi [z]es the sense of Baloch dispossession, with Islamabad controlling Balochistan’s wealth of natural resources: gas, coal, uranium, gold and oil – with hardly any revenue going to the Baloch people.”<sup>225</sup> He writes that political repression and exploitation of their natural resources has led to five armed uprisings since 1948 when Pakistan annexed the region.<sup>226</sup> Baloch nationalists feel politically marginalized with few choices left other than to fight. In 2009, Khair Bux Marri, who, according to Zurutuza, is considered the godfather of the Baloch insurgency, told Zurutuza, “Parliamentary politics is not an option for us so we’re forced to make politics with weapons.”<sup>227</sup>

## 1. Local Grievances

CPEC is exacerbating these existing grievances. According to Grare, CPEC, and particularly Gwadar, has become a symbol to the Baloch nationalists of their exploitation, marginalization, and neglect.<sup>228</sup> He explains, “Although it pre-dated the CPEC, the Gwadar Port is linked in public perception to the negative side effects of the larger project

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<sup>223</sup> Rabia Aslam, “Greed, Creed, and Governance in Civil Conflicts: A Case Study of Balochistan,” *Contemporary South Asia* 19, no. 2 (June 2011): 189, <https://doi.org/10.1080/09584935.2011.560654>.

<sup>224</sup> Kamwal, “Pakistan’s Gwadar Port: A New Naval Base in China’s String of Pearls in the Indo-Pacific,” 3–4.

<sup>225</sup> Karlos Zurutuza, “Meeting Pakistan’s Other Insurgents,” *The Diplomat*, October 2, 2009, <https://thediplomat.com/2009/10/meeting-pakistans-other-insurgents/>.

<sup>226</sup> Karlos Zurutuza, “Understanding Pakistan’s Baloch Insurgency,” *The Diplomat*, June 24, 2015, <https://thediplomat.com/2015/06/cracking-pakistans-baloch-insurgency/>.

<sup>227</sup> Zurutuza.

<sup>228</sup> Frederic Grare, “Along the Road: Gwadar and China’s Power Projection,” *Carnegie Endowment for International Peace*, July 31, 2018, <https://carnegieendowment.org/2018/07/31/along-road-gwadar-and-china-s-power-projection-pub-77217>.

in Pakistan.”<sup>229</sup> Viewed as a way to deliver on long-promised development, it was initially well-received, he writes.<sup>230</sup> However, according to many observers, Balochs have failed to benefit from Gwadar. In November 2017, the federal minister for ports and fisheries confirmed during a briefing to the Senate that Balochistan’s provincial government would receive none of the profits generated by Gwadar, while China would receive 91 percent and the Gwadar Port Authority would receive the rest.<sup>231</sup> Official statements and government news agencies highlight how CPEC has “opened the door of employment” for the people of Gwadar, citing that 70 percent of those hired in the construction of the port were local. However, some question the validity of this statement. For instance, according to Aslam, construction contracts were given to non-Baloch firms, and Punjabis and other non-Balochs occupy the majority of the port’s technical positions.<sup>232</sup> According to Sanaullah Baloch, a former senator from Balochistan, security jobs are another missed opportunity for the people of Balochistan.<sup>233</sup> He writes that instead of giving Balochs a stake in the system by recruiting Balochs for the Special Security Division project, the 15,000 jobs generated were instead filled by non-Baloch.<sup>234</sup>

Not only have Gwadar’s locals failed to benefit, but they have also been negatively affected by the project. Fishers are among the most negatively affected. According to Wani, fishers were left uncompensated when displaced from prime fishing grounds where Gwadar Port was constructed.<sup>235</sup> The fishers have not only been displaced from their fishing grounds either. According to Suleman, to make way for the port during the first phase of port development, locals were forced to relocate to the outskirts of town from

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<sup>229</sup> Grare.

<sup>230</sup> Grare.

<sup>231</sup> “China-Pakistan Economic Corridor: Opportunities and Risks” (International Crisis Group, June 29, 2018), <https://www.crisisgroup.org/asia/south-asia/pakistan/297-china-pakistan-economic-corridor-opportunities-and-risks>.

<sup>232</sup> Aslam, “Greed, Creed, and Governance in Civil Conflicts,” 197.

<sup>233</sup> Sanaullah Baloch, “CPEC: A Baloch Perspective,” *The News*, October 4, 2016, <https://www.thenews.com.pk/print/154685-CPEC-a-Baloch-perspective>.

<sup>234</sup> Baloch.

<sup>235</sup> Shakoor Ahmad Wani, “The Changing Dynamics of the Baloch Nationalist Movement in Pakistan: From Autonomy toward Secession,” *Asian Survey* 56, no. 5 (2016): 811.

some of the oldest neighborhoods in Gwadar.<sup>236</sup> According to Wani, land grabbing became a contentious issue when locals with no ownership documents saw their land appropriated by the state.<sup>237</sup> Kovrig writes that the state is estimated to have grabbed at least 290,000 acres, primarily through ultimatums delivered to residents who likely faced forced resettlement if they refused to sell.<sup>238</sup>

Fishers are worried about the threat to their livelihood. Last year, during a visit by Prime Minister Imran Khan, fishers protested, demanding the construction of bridges at three of Gwadar's main fishing neighborhoods to allow access to the approximately four and a half kilometers of coastline blocked by the construction of the Makran Coastal Highway.<sup>239</sup> Also worrisome to Gwadar fishers is the presence of Chinese fishing trawlers in waters around the port. In August 2021, protests erupted when five Chinese fishing boats were detained on suspicion of illegal fishing near Gwadar Port.<sup>240</sup> According to Khudadad Waju, the president of Fisherfolk Alliance Gwadar, local fishers confirmed upon examination that the fish were in fact caught on the Gwadar coast.<sup>241</sup> Displaced from their fishing grounds and homes and facing a threat to their livelihood, Gwadar's fishers are some of the worst affected by the Gwadar Port project. Finally, Balochs fear a major demographic shift as a result of the port. Once complete, the port is expected to bring a huge influx of people from other provinces, transforming, as Aslam puts it, "the ethnic makeup of the region as more and more Punjabis, Sindhis, and other workers will move

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<sup>236</sup> Mariyam Suleman, "Will China's Plans for Gwadar Destroy Fishermen's Livelihood?," *The Diplomat*, April 3, 2019, 160, <https://thediplomat.com/2019/04/will-chinas-plans-for-gwadar-destroy-fishermens-livelihood/>.

<sup>237</sup> Wani, "The Changing Dynamics of the Baloch Nationalist Movement in Pakistan," 811.

<sup>238</sup> Michael Kovrig, "National Ambitions Meet Local Opposition Along the China-Pakistan Economic Corridor," accessed September 17, 2021, <https://thediplomat.com/2018/07/national-ambitions-meet-local-opposition-along-the-china-pakistan-economic-corridor/>.

<sup>239</sup> Shahbaz Rana, "Pakistan, China to Expedite Work," *The Express Tribune*, November 30, 2020, sec. News, <http://tribune.com.pk/story/2274154/pakistan-china-to-expedite-work>; Suleman, "Will China's Plans for Gwadar Destroy Fishermen's Livelihood?"

<sup>240</sup> Shah Meer Baloch, "Pakistan Detains Five Chinese Trawlers for Alleged Illegal Fishing," *The Guardian*, July 13, 2021, <http://www.theguardian.com/world/2021/jul/13/pakistan-detains-five-chinese-trawlers-for-alleged-fishing>.

<sup>241</sup> Baloch.



into the area.”<sup>242</sup> For the people of Balochistan, who have long felt marginalized and exploited by their government, CPEC, and specifically Gwadar Port, are fueling long-standing grievances.

## 2. Balochistan Insurgency

Fishers and a restive local population present a challenge to the Gwadar Port project, but the more extreme among them pose the greatest threat to Gwadar Port and the rest of the CPEC projects in Balochistan. CPEC projects have become targets for the Baloch militia-led insurgency, which is increasingly hostile to China’s presence. According to Small, some describe opposition to the port as a last stand for the Baloch cause.<sup>243</sup> Zurutuza says Baloch insurgents have uploaded videos on social media, pledging to attack CPEC projects, which they believe are a threat to the Baloch identity.<sup>244</sup> According to open-source reports compiled by Kardon et al., as of August 2020, “there have been regular small-scale attacks, and at least 21 with loss of life or major injury to PRC citizens since 2002.”<sup>245</sup> In fact, according to Duchâtel, between 2004 and 2010, Chinese expatriates suffered more terrorist attacks in Pakistan than anywhere else.<sup>246</sup>

For example, in September 2016, two Chinese engineers were killed by a claymore blast in an attack claimed by the Baloch Liberation Army (BLA).<sup>247</sup> Afterward, the BLA’s spokesperson, Jeehand Baloch, said, “We have continuously warned China to refrain from being part of any expansionist designs.”<sup>248</sup> In November 2016, a day before a Chinese ship departed from Gwadar, inaugurating the new trade route, 52 were killed when a bomb

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<sup>242</sup> Aslam, “Greed, Creed, and Governance in Civil Conflicts,” 197.

<sup>243</sup> Small, *The China-Pakistan Axis: Asia’s New Geopolitics*, 102.

<sup>244</sup> Zurutuza, “Understanding Pakistan’s Baloch Insurgency.”

<sup>245</sup> Kardon, Kennedy, and Dutton, “China Maritime Report No. 7: Gwadar: China’s Potential Strategic Strongpoint in Pakistan,” 42.

<sup>246</sup> Mathieu Duchâtel, “The Terrorist Risk and China’s Policy toward Pakistan: Strategic Reassurance and the ‘United Front,’” *Journal of Contemporary China* 20, no. 71 (2011): 543, <https://doi.org/10.1080/10670564.2011.587158>.

<sup>247</sup> Mayank Pratap Singh, “Baloch Rebels Attack Dudher Project Site, 2 Chinese Engineers Killed, Many Hurt,” *India Today*, September 28, 2016, <https://www.indiatoday.in/world/story/baloch-rebels-attack-kills-two-engineers-343719-2016-09-28>.

<sup>248</sup> Singh.

exploded at a Muslim shrine in Balochistan.<sup>249</sup> In April 2017, an improvised explosive device (IED) blast injured three people on Gwadar Airport Road.<sup>250</sup> In November 2018, three heavily armed BLA militants attacked the Chinese consulate in Karachi, marking the first time that insurgents had carried out attacks against Chinese officials in Karachi.<sup>251</sup> In May 2019, the BLA took responsibility for a deadly attack at a luxury hotel in Gwadar, taking hotel staff hostage and killing three security guards.<sup>252</sup> More recently, in July 2021, a suicide bomber attacked a bus carrying Chinese workers to the Dasu Dam construction site, leaving 13 people dead, including nine Chinese nationals.<sup>253</sup> Later that same month, a Chinese engineer was shot and wounded by BLA gunmen riding a motorbike.<sup>254</sup> A month later, a suicide attack claimed by the BLA targeted a vehicle carrying Chinese nationals in Gwadar district, killing two children playing nearby.<sup>255</sup> Clearly, the Baloch insurgency presents a continuing threat to the success of CPEC projects. If Gwadar is going to be successful, security is essential. As Wang, writing for the *Global Times*, wrote, “What matters more is not the signing of deals, but the timely execution of the deals, which requires security guarantees along the route.”<sup>256</sup>

Some question whether Pakistan can protect Gwadar and CPEC. Security has been reinforced in Gwadar since CPEC was unveiled. Pakistan set up a special security force

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<sup>249</sup> Wenwen Wang, “Security Key to China-Pakistan Economic Corridor Success,” *Global Times*, November 14, 2016, <https://www.globaltimes.cn/content/1017881.shtml>.

<sup>250</sup> Syed Ali Shah, “At Least Three Injured in Gwadar Blast,” *DAWN.Com*, April 12, 2017, <https://www.dawn.com/news/1326527>.

<sup>251</sup> Muhammad Akbar Notezai, “Why Balochs Are Targeting China,” *The Diplomat*, November 26, 2018, <https://thediplomat.com/2018/11/why-balochs-are-targeting-china/>.

<sup>252</sup> Saleem Shahid and Behram Baloch, “Terror in Gwadar as Gunmen Storm Luxury Hotel,” *DAWN.Com*, May 12, 2019, <https://www.dawn.com/news/1481731>.

<sup>253</sup> Umar Bacha, “9 Chinese Engineers among 12 Killed in ‘attack’ near Dasu Hydropower Plant,” *DAWN.Com*, July 14, 2021, <https://www.dawn.com/news/1635023>.

<sup>254</sup> Imtiaz Ali, “Chinese Engineer Wounded in Gun Attack on Car in Karachi, BLF Claims Responsibility,” *DAWN.Com*, July 29, 2021, <https://www.dawn.com/news/1637510>.

<sup>255</sup> Josephine Ma, “China Condemns ‘Terror Attack’ Aimed at Chinese Nationals in Pakistan,” *South China Morning Post*, August 21, 2021, sec. News, <https://www.scmp.com/news/asia/south-asia/article/3145860/two-children-killed-suicide-bombing-targeting-chinese>.

<sup>256</sup> Wang, “Security Key to China-Pakistan Economic Corridor Success.”

comprising over 15,000 soldiers to protect Chinese people and projects along CPEC.<sup>257</sup> According to Notezai, “The whole town of Gwadar city now resembles a military cantonment.”<sup>258</sup> A report by the Crisis Group says the state’s response to the attacks has been an “overbearing security presence, marked by army checkpoints, intimidation and harassment of local residents, and crackdowns on anti-CPEC protest,” which is only fueling the insurgency.<sup>259</sup> Despite this security presence, the report notes that police and paramilitary personnel killings remain frequent, even in usually safe areas such as Quetta, the provincial capital.<sup>260</sup> The problem will likely only get worse, according to Yang and Shi, who write that

Over time, it will become more difficult for Pakistan to guarantee the security of the CPEC’s growing transportation networks, which will require increasing investments of security personnel and material support. It will likely become uncertain in the future whether Pakistan can maintain a strong enough military presence to ensure the security of all these transportation routes.<sup>261</sup>

Some question whether a security-centric approach is the best solution. Notezai writes that a better approach would be to get local buy-in by involving Balochs in the development of the Gwadar Port project because then “the Balochs themselves would stand like a wall against any untoward incidents.”<sup>262</sup> He believes that until the government convinces Balochs that CPEC development is for them, “they may join the Baloch separatists in fighting against the state.”<sup>263</sup>

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<sup>257</sup> Kathy Gannon, “AP Explains: China’s Megaprojects Fuel Unease in Pakistan,” *AP News*, November 25, 2018, sec. AP Top News, <https://apnews.com/article/ap-top-news-pakistan-international-news-islamabad-china-a2e25af232a04d7f8eb294151ecd4bbf4>.

<sup>258</sup> Muhammad Akbar Notezai, “Can Pakistan Protect CPEC?,” *The Diplomat*, May 20, 2019, <https://thediplomat.com/2019/05/can-pakistan-protect-cpec/>.

<sup>259</sup> International Crisis Group, “China-Pakistan Economic Corridor: Opportunities and Risks.”

<sup>260</sup> International Crisis Group, “China-Pakistan Economic Corridor: Opportunities and Risks.”

<sup>261</sup> Zhiqin Shi and Lu Yang, “The Benefits and Risks of the China-Pakistan Economic Corridor,” *Carnegie-Tsinghua Center*, December 21, 2016, <https://carnegietsinghua.org/2016/12/21/benefits-and-risks-of-china-pakistan-economic-corridor-pub-66507>.

<sup>262</sup> Notezai, “Can Pakistan Protect CPEC?”

<sup>263</sup> Notezai, “Why Balochs Are Targeting China.”

Whether or not Pakistan can provide security for Gwadar has important implications for its economic viability. Grare writes that as long as insecurity prevails in the province, Gwadar's economic role remains limited.<sup>264</sup> A region with a sustained low-intensity conflict is not an attractive place for the investment necessary for growth. According to Notezai, "Already, foreign investors, including Chinese, have security concerns about investing in the province."<sup>265</sup> He writes that the Pakistani government needs to provide a secure environment; otherwise, investors will back away from Gwadar.<sup>266</sup> If they do, it will not bode well for the port's prospects of becoming the regional economic hub.

## H. CRITICAL INFRASTRUCTURE

Before Gwadar becomes a regional transshipment hub and economic gateway for the region, it will need ample and reliable water and electricity supply. However, for years Gwadar has suffered chronic electricity and water shortages. As recently as August 2021, demonstrators blocked Gwadar's roads, protesting the severe water and electricity shortages.<sup>267</sup> Gwadar is not connected to Pakistan's national electric grid; it relies instead on electricity imported from Iran.<sup>268</sup> However, this electricity supply is unreliable. In July 2021, Chief Minister Jam Kamal Khan Alyani said that the electricity supply from Iran was supplying only 10 MW of electricity a day.<sup>269</sup> Minister for Energy, Hammad Azhar, said that power shortfalls have resulted in load-shedding in Gwadar and other districts in the Makran region.<sup>270</sup> This is not the first time residents of Gwadar have faced daily hours-

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<sup>264</sup> Grare, "Along the Road."

<sup>265</sup> Notezai, "Can Pakistan Protect CPEC?"

<sup>266</sup> Notezai.

<sup>267</sup> Shah Meer Baloch, "Protests in Pakistan Erupt against China's Belt and Road Plan," *the Guardian*, August 20, 2021, <http://www.theguardian.com/environment/2021/aug/20/water-protests-in-pakistan-erupt-against-chinas-belt-and-road-plan>.

<sup>268</sup> "Gwadar Electricity to Be Imported from Iran," *DAWN.Com*, September 19, 2008, <http://beta.dawn.com/news/940163/gwadar-electricity-to-be-imported-from-iran>.

<sup>269</sup> Behram Baloch and Saleem Shahid, "Thousands Hold Protest against Power Outage in Makran," *DAWN.Com*, July 29, 2021, <https://www.dawn.com/news/1637522>.

<sup>270</sup> Kazim Alam, "Short Supply from Iran behind Outages in Balochistan: Minister," *DAWN.Com*, July 30, 2021, <https://www.dawn.com/news/1637671>.

long outages, sometimes for 16 to 18 hours of the day.<sup>271</sup> For most of a month in 2018, those in the Makran district lived without electricity during most of the day.<sup>272</sup> According to Senator Kauda Babar, the federal and Balochistan governments “have formulated plans” to address the electricity issues, including building a 300 MW coal-fired power plant and hooking up Gwadar to the national electricity grid.<sup>273</sup> As of August 2019, Planning Secretary Zafar Hasan said that work on the 300 MW power plant would be expedited.<sup>274</sup> However, over a year later, the financing agreement for the project was still not finalized.<sup>275</sup> At the beginning of this year, the Gwadar Coal Power Project was still unapproved by the CPEC joint coordination committee (JCC), which was due to review the project at the CPEC meeting in July.<sup>276</sup> However, that meeting was postponed.<sup>277</sup> As of August 2021, the project had not yet commenced.<sup>278</sup> In the meantime, the government is negotiating with Iran to provide short-term relief.<sup>279</sup> A 220 KV transmission line will eventually connect Gwadar to the national electricity grid, but for the time being, Gwadar will remain dependent on Iran for electricity.<sup>280</sup>

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<sup>271</sup> “Outages in Makran,” *Gwadaria* (blog), August 1, 2021, <https://gwadaria.com/outages-in-makran-newspaper/>.

<sup>272</sup> Gwadaria, “Outages in Makran.”

<sup>273</sup> “Govt Formulates Plans to Address Water, Power Shortage in Gwadar: Senator Babar,” *The Daily CPEC*, August 28, 2021, <https://www.thedailycpec.com/govt-formulates-plans-to-address-water-power-shortage-in-gwadar-senator-babar/>.

<sup>274</sup> “Joint Working Group on Gwadar Appreciates Progress in Development of Gwadar. Government Attaches Top Priority to the Development of Gwadar: Zafar Hasan,” China Pakistan Economic Corridor Official Website, August 29, 2019, <http://www.cpec.gov.pk/news/184>.

<sup>275</sup> Shahbaz Rana, “Pakistan, China to Expedite Work,” *The Express Tribune*, December 1, 2020, <https://tribune.com.pk/story/2274154/pakistan-china-to-expedite-work>.

<sup>276</sup> “300MW Gwadar Coal Power Project Awaiting ECC’s Approval,” CPEC Portal, January 27, 2021, <https://cpecinfo.com/300mw-gwadar-coal-power-project-awaiting-eccs-approval/>.

<sup>277</sup> “CPEC: 10th JCC Postponed,” *Economic News*, July 16, 2021, <https://www.economicnews.com.cn/2021/07/16/cpec-10th-jcc-postponed/>.

<sup>278</sup> “BHC Seeks Ministry’s Reply over Delay in Gwadar Power Projects,” *Gwadaria* (blog), August 27, 2021, <https://gwadaria.com/bhc-seeks-ministrys-reply-over-delay-in-gwadar-power-projects/>.

<sup>279</sup> Daily CPEC, “Govt Formulates Plans to Address Water, Power Shortage in Gwadar.”

<sup>280</sup> “Pakistan to Take Iranian Electricity to Power up Gwadar Port,” *ANI News*, August 14, 2021, sec. World, <https://www.aninews.in/news/world/asia/pakistan-to-take-iranian-electricity-to-power-up-gwadar-port20210814183735/>.

The water crisis in Gwadar is just as severe; the city and adjacent areas have faced a chronic water crisis since May 2017.<sup>281</sup> Akram Dam, which was the city's source of clean drinking water, has long since dried up, and now the city's main source of water is through government-supplied tankers.<sup>282</sup> The government pays tanker companies to transport water from Mirani Dam in Turbat, approximately 150 kilometers away.<sup>283</sup> However, this supply is unreliable. Multiple times tankers have stopped providing water due to payment disputes with the government.<sup>284</sup> However, even with the tankers, the water supply is inadequate for Gwadar's needs. As of July 2021, Gwadar City's water requirement was 4.2 million gallons per day (MGD); the government supply is only 2 MGD.<sup>285</sup>

According to Crellin, desalination plants are the most viable solution since the groundwater contains high salt levels, and dams will likely remain dry due to drought.<sup>286</sup> Two desalination plants have been built in Gwadar, but, according to Suleman, these have proven insufficient because of design flaws and technical issues.<sup>287</sup> For example, a desalination plant installed in Gwadar in January 2018 provides approximately 250,000 gallons of clean water.<sup>288</sup> Additionally, the two existing desalination plants only benefit the port, not the city.<sup>289</sup> Furthermore, both plants rely on power from generators due to the

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<sup>281</sup> Mariyam Suleman, "Gwadar's Water Crisis," *The Diplomat*, May 1, 2018, <https://thediplomat.com/2018/05/gwadars-water-crisis/>.

<sup>282</sup> "Water Crisis Worsens in Gwadar," *The News*, February 8, 2018, <https://www.thenews.com.pk/latest/278603-water-crisis-worsens-in-gwadar>.

<sup>283</sup> Suleman, "Gwadar's Water Crisis."

<sup>284</sup> Suleman.

<sup>285</sup> "Gwadar to Get 1.2 MGD Water Desalination Plant," *China Pakistan Economic Corridor* (blog), July 15, 2021, <http://cpecinfo.com/gwadar-to-get-1-2-mgd-water-desalination-plant/>.

<sup>286</sup> Christopher Crellin, "Pakistan: Confronting Gwadar's Water Crisis," *Future Directions International* (blog), July 11, 2018, <https://www.futuredirections.org.au/publication/pakistan-confronting-gwadars-water-crisis/>.

<sup>287</sup> Suleman, "Gwadar's Water Crisis."

<sup>288</sup> Bushra Jahangir, "Desalination Plant Opens at Gwadar Port," *CPECB* (blog), January 2, 2018, <https://www.cpecb.com/desalination-plant-opens-at-gwadar-port/>.

<sup>289</sup> International Crisis Group, "China-Pakistan Economic Corridor: Opportunities and Risks."

unreliable electricity supply.<sup>290</sup> In July 2021, the government approved a 1.2 MGD desalination plant for Gwadar to provide water for Gwadar city.<sup>291</sup>

For Gwadar Port to be successful, the electricity and water crisis must be fixed. Though the port generates its own electricity and water, this will be insufficient as the port expands and the free trade zones around the port develop. According to Babar, the Gwadar Port and Free Zone operation completely rely on the COPHC generators, but this will be insufficient for the estimated 242 MW required for the Gwadar Free Zone.<sup>292</sup> Gwadar's future development depends on the reliability of water and electricity. According to Babar, the unavailability of electricity has forced several investors to abandon their plans in the region.<sup>293</sup> Potential investors will remain deterred until a completed power plant and adequate desalination plants provide adequate power and water to Gwadar city. Until then, the port will fail to develop into the economic hub as it is intended.

## I. GWADAR PORT'S COMMERCIAL COMPETITIVENESS

Despite being operational since March 2008, by October 2016, only 176 ships and 6.3 million tons of cargo had been handled by the port.<sup>294</sup> In comparison, Karachi Port handles 26 million tons of cargo per year and about 1600 ships annually.<sup>295</sup> In November 2016, CPEC was declared "open for business" by the Chinese Ambassador to Pakistan when Gwadar received its first large shipment of Chinese goods through Pakistan, according to an article in *China Daily*, which praised the occasion as "validating the trade

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<sup>290</sup> Rina Saeed Khan, "Thirsty to Thriving? Parched Pakistani Port Aims to Become a New Dubai," *Reuters*, April 24, 2018, <https://www.reuters.com/article/us-pakistan-port-water-idUSKBN1HV07K>.

<sup>291</sup> Pakistan-China Institute, "Gwadar to Get 1.2 MGD Water Desalination Plant."

<sup>292</sup> Kahuda Babar, "Powering Gwadar for the Future," *The Nation*, October 5, 2020, <https://nation.com.pk/05-Oct-2020/powering-gwadar-for-the-future>.

<sup>293</sup> Babar.

<sup>294</sup> Peer Muhammad, "First CPEC-Specific Shipment to Arrive in Mid-November," *The Express Tribune*, October 29, 2016, sec. News, <http://tribune.com.pk/story/1214558/formal-kick-off-first-cpec-specific-shipment-arrive-mid-november>.

<sup>295</sup> "Port Statistics," Karachi Port Trust, accessed August 25, 2021, <https://kpt.gov.pk/pages/21/port-statistics>.

link between western China and the Arabian Sea.”<sup>296</sup> However, as Kardon et al. write, another large-scale transport has not travelled south from China and across Pakistan to Gwadar since, “calling into question the heavily promoted idea of an economic corridor from China to the Indian Ocean.”<sup>297</sup> Notably, the cargo in that shipment was construction materials and machinery for the port itself, including bulldozer trucks, dumpers, and cranes.<sup>298</sup> CPEC related construction material is typical of much of the shipping activity the port sees.<sup>299</sup> Furthermore, that ship was only the second that the port had seen that month, something the Chinese port operator, COPHC, was working on increasing.<sup>300</sup> In 2017, Gwadar Port Authority Chairman, Dostain Jamaldini, announced that Gwadar would receive more container ships in the coming months, “We receive one or two ships in 15 days, but the frequency will increase to three ships per week in coming months.”<sup>301</sup> In March, a year later, he declared triumphantly that Gwadar Port had become a reality when the first-ever Chinese container vessel arrived in Gwadar and departed for Dubai loaded with frozen seafood.<sup>302</sup> According to the *Global Times*, this event commenced the Karachi Gwadar Gulf Express, a container cargo shipping service between Gwadar and several Middle Easter ports.<sup>303</sup> However, as Kardon et al. note, the service ended months later after only nine such transits.<sup>304</sup> The reasons for this indicate the issues Gwadar faces if it

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<sup>296</sup> “Key Part of Pakistan Economic Corridor Opens Up,” *China Daily*, November 15, 2016, [http://www.chinadaily.com.cn/world/2016-11/15/content\\_27378102.htm](http://www.chinadaily.com.cn/world/2016-11/15/content_27378102.htm).

<sup>297</sup> Kardon, Kennedy, and Dutton, “China Maritime Report No. 7: Gwadar: China’s Potential Strategic Strongpoint in Pakistan,” 3.

<sup>298</sup> Muhammad, “First CPEC-Specific Shipment to Arrive in Mid-November.”

<sup>299</sup> “Gwadar Port: Pakistan-China Gwadar Port Runs into Rough Weather,” *The Economic News*, September 9, 2019, <https://economictimes.indiatimes.com/news/international/world-news/pakistan-china-gwadar-port-runs-into-rough-weather/articleshow/71041565.cms>.

<sup>300</sup> Muhammad, “First CPEC-Specific Shipment to Arrive in Mid-November.”

<sup>301</sup> “Four Factories in Gwadar to Start Production by Dec,” *The Express Tribune*, March 30, 2017, <https://tribune.com.pk/story/1369094/gwadar-four-factories-start-production-dec>.

<sup>302</sup> “Gwadar Port Becomes Operational for Container Vessels,” *The Nation*, March 8, 2018, <https://nation.com.pk/08-Mar-2018/gwadar-port-becomes-operational-for-container-vessels>.

<sup>303</sup> “Pakistan’s Gwadar Port Sees First Container Vessel, a Milestone for Belt and Road Initiative,” *Global Times*, March 8, 2018, <https://www.globaltimes.cn/content/1092489.shtml>.

<sup>304</sup> Kardon, Kennedy, and Dutton, “China Maritime Report No. 7: Gwadar: China’s Potential Strategic Strongpoint in Pakistan,” 3.



is going to become an international trade hub. The first is development. According to an article in the *Economic Times*, China's COSCO Shipping Lines discontinued the shipping service due to "insufficient export and import volume at the port terminal," as a result of the slow construction of the Gwadar Free Trade Zone.<sup>305</sup> Other reasons cited by the article include, "Insufficient functioning of Gwadar customs, high inland shipping cost and non-acceptance of transit items by the Karachi Port."<sup>306</sup> According to the article, the shipping service was heavily subsidized by COPHC for weekly vessels calls at Gwadar, but this became economically infeasible with little cargo and "few containers being loaded."<sup>307</sup>

Nonetheless, Pakistan still believes Gwadar will become a transshipment hub, especially when it has begun improving trade ties with Afghanistan and the Central Asian countries.<sup>308</sup> However, while Pakistan may provide a shorter route to the sea for Central Asia states and Afghanistan, according to Rafiq, these states have other cheaper and more efficient options.<sup>309</sup> For example, Chabahar in Iran is emerging as a more cost-effective gateway to landlocked Afghanistan and the CARs.<sup>310</sup> According to an Asian Development Bank (ADB) report, Afghanistan has shifted from using Pakistan as a gateway for seaborne trade in recent years, relying instead on Iran.<sup>311</sup> The report states that, "recent trends indicate that 70 percent of Afghan transit trade is now diverted through Iran."<sup>312</sup> The report suggests that this trend is driven by "lower costs from foreign ports" and "more attractive

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<sup>305</sup> Economic News, "Gwadar Port: Pakistan-China Gwadar Port Runs into Rough Weather."

<sup>306</sup> Economic News, "Gwadar Port: Pakistan-China Gwadar Port Runs into Rough Weather."

<sup>307</sup> Economic News, "Gwadar Port: Pakistan-China Gwadar Port Runs into Rough Weather."

<sup>308</sup> "CPEC Facilitates Pakistan's Pursuit of Becoming Regional Transshipment Hub," *Xinhua*, May 14, 2021, [http://www.xinhuanet.com/english/2021-05/14/c\\_139944824.htm](http://www.xinhuanet.com/english/2021-05/14/c_139944824.htm).

<sup>309</sup> Arif Rafiq, "Regional Transit Trade Isn't Enough to Drive Pakistan's Gwadar Port," Middle East Institute, October 14, 2020, <https://www.mei.edu/publications/regional-transit-trade-isnt-enough-drive-pakistans-gwadar-port>.

<sup>310</sup> "Chabahar Port to Help Afghanistan, Other Countries Reduce Logistics Cost: Government," *The Economic Times*, March 4, 2021, <https://economictimes.indiatimes.com/news/defence/chabahar-port-to-help-afghanistan-other-countries-reduce-logistics-cost-government/articleshow/81331365.cms>.

<sup>311</sup> "CAREC Corridor Performance Measurement and Monitoring: Annual Report 2019," 0 ed. (Manila, Philippines: Asian Development Bank, November 2019), 35, <https://doi.org/10.22617/TCS190516-2>.

<sup>312</sup> Asian Development Bank, 35.

security deposit and detentions tariffs for transit containers from shipping lines that operate at Iran’s seaports.”<sup>313</sup> Since ground transport must travel by road, cheap diesel fuel makes a considerable difference in cost. And at at \$0.06 per liter, the Asian Development Bank report notes, diesel fuel in Iran is much less expensive than the \$0.86 per liter fuel in Pakistan.<sup>314</sup> Furthermore, according to Shibasaki, “Insufficient infrastructure, especially in Afghanistan,” makes it difficult to access Central Asia.<sup>315</sup> If Gwadar is going to be a gateway for Central Asia and Afghanistan, it will require more than just roads. Shah Afridi et al. found that Pakistani ports such as Gwadar could play a key role as gateways for Central Asia, but only if rail connectivity with Central Asia via Afghanistan and China was available.<sup>316</sup> As discussed earlier, that availability is still a ways off.

Chabahar is not the main competitor for Gwadar Port; Karachi Port remains the competitive destination for transshipment and energy trade in Pakistan. Karachi Port appears to be the more desirable destination than Gwadar Port for several reasons. The first Karachi’s capacity to accommodate more commercial shipping like container vessels, cargo ships, and tankers. At present, Gwadar Port can accommodate 50,000 deadweight tonnage (DWT) bulk carriers.<sup>317</sup> Conversely, Karachi Port can handle up to 75,000 DWT.<sup>318</sup> Furthermore, Gwadar can accommodate 14.5-meter depth alongside its berths.<sup>319</sup> According to the official CPEC website, Gwadar Port Authority has dredging projects in the works to increase this depth.<sup>320</sup> Meanwhile, Karachi has four deep sea

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<sup>313</sup> Asian Development Bank, 35.

<sup>314</sup> Asian Development Bank, 35.

<sup>315</sup> Shibasaki et al., “Could Gwadar Port in Pakistan Be a New Gateway?,” 2.

<sup>316</sup> Shah Afridi, Bibi, and Muhammad, “The Economic Viability of Gwadar Port: An Economic Hub for Maritime Trade,” 22.

<sup>317</sup> “Port Profile,” Gwadar Port Authority, accessed August 18, 2021, <http://www.gwadarport.gov.pk/portprofile.aspx>.

<sup>318</sup> Karachi Port Trust, “Port Statistics.”

<sup>319</sup> Gwadar Port Authority, “Port Profile.”

<sup>320</sup> “Dredging of Berthing Areas & Channels,” China-Pakistan Economic Corridor (CPEC) Official Website, accessed September 7, 2021, <http://www.cpec.gov.pk/project-details/35>.

berths that are 16 meters deep, with another six in advanced stages of construction.<sup>321</sup> Gwadar's port facilities pale in comparison to Karachi's port facilities. Compared to Gwadar's three multipurpose berths and one service berth, Karachi has 30 dry cargo and three liquid cargo handling berths, and according to the Karachi Port website, berth occupancy is only about 45%, with plenty of capacity to handle more cargo.<sup>322</sup>

Pakistan and China seem to be prioritizing resources to upgrade Karachi over Gwadar. In September 2016, a senate special committee on the CPEC prepared a report that claimed Gwadar was the least priority for the government.<sup>323</sup> According to the article in *Dawn*, the special committee's chairman, Senator Taj Haider, said, "the government was utilizing its resources to upgrade the existing Karachi port instead of developing the partly constructed Gwadar port."<sup>324</sup> Karachi's hinterland connectivity, which like Gwadar, requires improvement, seems to be receiving a higher priority. In the same report, the senate special committee noted that the western route from Gwadar was not being given priority, "as per promise publicly made by Prime Minister Nawaz Sharif," while the eastern route from Karachi and the Peshawar-Karachi Main Line 1 of railways was proceeding faster.<sup>325</sup> The committee also added that the six-lane motorway on the eastern route was expected to be completed soon.<sup>326</sup> This road would help to alleviate the congestion in Karachi, one of the main logistics issues it faces.<sup>327</sup>

Karachi is also looking to be a more viable option for an energy corridor. Saudi Arabia has shifted plans for a proposed oil refinery from Gwadar to Karachi. *Nikkei Asia* reported in June 2021 that Saudi Arabia had decided to move a proposed \$10bn oil refinery from Gwadar to Karachi, which, as the article notes, supports the notion that Gwadar "is

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<sup>321</sup> Syed Irfan Raza, "Questions Raised over Fate of Gwadar Port," *DAWN.Com*, September 29, 2016, <http://www.dawn.com/news/1286840>.

<sup>322</sup> Karachi Port Trust, "Port Statistics."

<sup>323</sup> Raza, "Questions Raised over Fate of Gwadar Port."

<sup>324</sup> Raza.

<sup>325</sup> Raza.

<sup>326</sup> Raza.

<sup>327</sup> Khaleeq Kiani, "Karachi Ports Facing Extreme Congestion," *DAWN.Com*, August 7, 2017, <https://www.dawn.com/news/1350078>.

losing its importance as a mega-investment hub.”<sup>328</sup> According to the article, “The decision to shift the project to Karachi highlights the infrastructural deficiencies in Gwadar.”<sup>329</sup> An anonymous Pakistani official told the new agency that Gwadar could only be feasible for an oil refinery if an oil pipeline connects it to the center of the country’s oil supply; otherwise, oil transport from Gwadar is costly.<sup>330</sup> The economic benefits of Gwadar compared to Karachi are increasingly hard to identify.

## J. CONCLUSION

Based on the framework presented in this chapter, Gwadar Port is far from becoming an economic gateway for the region or even the most desirable transshipment port in Pakistan. First, Gwadar Port lacks sufficient hinterland connectivity. It lacks connectivity to the country’s railway system, much less the rest of the region. Its only overland connection to China and Central Asia is the Karakoram Highway, far from a reliable thoroughfare for trade. Optimists may present the lack of hinterland connectivity as an opportunity (to build roads, railways, and pipelines); however, in reality it is a hindrance that undermines the commercial viability of the port. Many see Gwadar as a solution to China’s reliance on seaborne oil shipments transiting the Strait of Malacca; however, the port does not have the capacity, the oil refinery, or the pipeline necessary to do so. Current CPEC projects may address some of these issues; however, a persistent insurgency opposed to CPEC may be more intractable. The BLA has shown by word and deed that Chinese workers and projects will continue to be targeted. To the Baloch insurgents, Gwadar Port stands as a symbol of their exploitation, marginalization, and repression. For the safety of existing projects and to secure the investment of future ones, the federal and Balochistan governments must resolve the political instability in the region. They must also solve the ongoing water and power shortages that have chronically plagued the region.

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<sup>328</sup> Adnan Aamir, “Pakistan’s Gwadar Loses Luster as Saudis Shift \$10bn Deal to Karachi,” *Nikkei Asia*, June 13, 2021, <https://asia.nikkei.com/Politics/International-relations/Pakistan-s-Gwadar-loses-luster-as-Saudis-shift-10bn-deal-to-Karachi>.

<sup>329</sup> Aamir.

<sup>330</sup> Aamir.

None of these issues will be resolved soon, and some of them, such as terrorist attacks on CPEC projects, only appear to be getting worse. Gwadar Port's economic value was, and by many still is, predicted to outshine other ports in the region; however, the evidence so far suggests it is losing its luster. This raises the question of why China would continue investing in a project when the economic benefits are becoming increasingly difficult to identify. Perhaps it is, as Small said of the Karakoram Highway, "Like many other joint Sino-Pakistani projects, the KKH would have been killed off quickly if its economic value had been the only thing it had going for it."<sup>331</sup> That is why some analysts suspect non-economic motives must also be involved, despite declarations to the contrary.<sup>332</sup> The next chapter will explore the relevance of this question by examining Gwadar Port's dual-use viability.

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<sup>331</sup> Small, *The China-Pakistan Axis: Asia's New Geopolitics*, 106.

<sup>332</sup> Ben Blanchard, "China Not Asked for Military Access to Gwadar, Pakistan Admiral Says," *Reuters*, October 25, 2018, <https://www.reuters.com/article/china-defence-pakistan-idINKCN1N00QY>.

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## IV. GWADAR PORT'S DUAL-USE VIABILITY

### A. INTRODUCTION

When characterizing the MSRI maritime connectivity projects, like the Gwadar Port project, China highlights the win-win aspects and mutual benefits of what they frame as purely economic investments. According to the BRI vision statement, maritime connectivity projects are about “building smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road.”<sup>333</sup> Similarly, the Vision for Maritime Cooperation Under the Belt and Road Initiative envisages “safe and efficient maritime transport channels” or “blue economic passages” facilitated by establishing a network of ports promoting maritime connectivity and ocean cooperation between China and countries along the Road.<sup>334</sup> The document directs Chinese enterprises to “participate in the construction and operation of ports” and encourages countries along the Road to “enhance cooperation through pairing sister ports and forging port agreements.”<sup>335</sup> Absent from these official documents is mention of any geostrategic goals. Therefore, according to BRI policy documents, port infrastructure projects like the Gwadar Port project are win-win development projects to enhance maritime connectivity and mutual ocean-based prosperity.<sup>336</sup>

However, the seemingly absent commercial viability of Gwadar Port leads many foreign observers to question whether China has ulterior strategic motives for the port. As Russel and Berger write, “If such BRI projects are not driven by commercial logic, then what is the real rationale behind China’s development of infrastructure assets in the Indo-

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<sup>333</sup> “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,” National Development and Reform Commission, March 28, 2015, [https://en.ndrc.gov.cn/newsrelease\\_8232/201503/t20150330\\_1193900.html](https://en.ndrc.gov.cn/newsrelease_8232/201503/t20150330_1193900.html).

<sup>334</sup> National Development and Reform Commission, “Visions and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road.”

<sup>335</sup> National Development and Reform Commission, “Visions and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road.”

<sup>336</sup> National Development and Reform Commission, “Visions and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>-Century Maritime Silk Road.”

Pacific?”<sup>337</sup> “Despite being promoted in the name of development and commerce,” they speculate, “could these infrastructure assets have intentional dual-use military functionality or be readily convertible to use as military bases?”<sup>338</sup>

Officially, Beijing and Islamabad have long denied the existence of a military aspect to Gwadar.<sup>339</sup> In 2018, former Secretary of the Pakistan Navy, Rear Admiral Javaid Iqbal, at the Xiangshan Forum in Beijing affirmed, “Let me emphasise [sic] that the Gwadar port is purely a commercial venture and has no military overtones.”<sup>340</sup> He further reiterated, “The Gwadar port has no military dimension. It will be just a commercial port.”<sup>341</sup> Unofficially, however, some Chinese analysts explicitly acknowledge Gwadar Port’s potential military benefits. Thorne and Spevack’s research of unofficial PRC state- and CCP-affiliated publications indicates that some Chinese analysts, “particularly those with military backgrounds,” argue that port investments can “enhance [China’s] military presence in the Indo-Pacific.”<sup>342</sup> According to Thorne and Spevack, these analysts argue that “commercial ports—especially those with developed industrial capacity—can significantly contribute to these goals and alter the strategic operating environment in China’s favor.”<sup>343</sup> Therefore, though unacknowledged by official Chinese statements, it is clear that dialogue exists inside China on how Maritime Silk Road port infrastructure projects like Gwadar Port can serve China’s security interests.

Analysts—both inside China and out—theorize Gwadar Port’s potential as a dual-use port that could facilitate China’s long-range naval operations; however, often absent from such assessments are more specific discussions of Gwadar Port’s current ability to

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<sup>337</sup> Russel and Berger, “Weaponizing the Belt and Road Initiative,” 9.

<sup>338</sup> Russel and Berger, 9.

<sup>339</sup> “Gwadar Port a Commercial Venture with China,” *DAWN.Com*, March 14, 2013, <https://www.dawn.com/2013/03/14/gwadar-port-a-commercial-venture-with-china-2/>.

<sup>340</sup> Blanchard, “China Not Asked for Military Access to Gwadar, Pakistan Admiral Says.”

<sup>341</sup> Blanchard.

<sup>342</sup> Thorne and Spevack, “Harbored Ambitions: How China’s Port Investments Are Strategically Reshaping the Indo-Pacific,” 21.

<sup>343</sup> Thorne and Spevack, 21.



sustain PLAN far-seas military operations. This chapter will address this shortcoming by methodically assessing whether Gwadar Port is currently viable as a dual-use port.

## **B. METHODOLOGY**

This thesis utilizes analytical framework to assess whether Gwadar Port is a viable dual-use port. First, does Gwadar Port have strategic potential? Gwadar must be strategically located and have the minimum required characteristics to accommodate warships to meet this criterion. A strategic port must be in close geographic proximity to major sea lines of communication. An isolated port far from China's perceived security threats does little to protect China's security interests. The characteristics required to accommodate warships, at a minimum, must include a channel that is deep enough and piers that are large enough to accommodate big warships as well as facilities and infrastructure to refit, repair, and support a PLAN vessel and its crew.

Second, besides meeting the minimum requirements to accommodate PLAN vessels and crew, Gwadar Port must also compare favorably to Pakistan's other naval bases along the Makran Coast. If Gwadar port falls short of the rest, then arguably, the PLAN will not send its warships to Gwadar instead of Pakistan's more capable naval bases. Therefore, the second factor in the framework is an assessment of how Gwadar Port compares to Pakistan's other naval bases.

The third, and perhaps the most determinative, factor is whether China has the influence to gain military access to Pakistan's ports. Gwadar Port may be strategically located, accommodate PLAN naval vessels, and be a desirable port of choice compared to other naval bases; however, if China's military cannot use the port, then the rest of the factors matter little. Therefore, China must have influence—or leverage—to compel those in the Pakistani government with authority to grant China military access to Pakistan's ports to do so. This thesis examines four forms of influence. The first is China's influence in Gwadar Port since a Chinese SOE, China Overseas Port Holding Company (COPHC), is a part-owner and operator of the port. Do favorable port concessions translate to freedom to grant access to foreign military vessels? The second form of influence assessed is that which China has due to its close military relationship with Pakistan. How has China's

military diplomacy, specifically its arms sales and joint military exercises, created conditions for its warships to access Pakistani ports? The third form of influence analyzed is the influence that comes from China's economic relationship with Pakistan. Do China's foreign investment, Pakistan's external debt owed to China, and China and Pakistan's trade deficit provide China economic leverage over Pakistan to create access agreements? The fourth and final form of influence investigated is China's political influence within Pakistan's government. How much sway does China have among Pakistan's political stakeholders? Pakistan's political stakeholders include not just the current Prime Minister and his administration but also the rest of Pakistan's national political parties and the regional parties in Balochistan, which is where Gwadar Port is located.

### **C. MAIN FINDINGS**

Based on this framework, Gwadar Port is a viable dual-use port; however, it is not likely to be used as one at this point. Gwadar Port has both strategic location and the minimum required infrastructure to facilitate the PLAN's current overseas operations; however, compared to Pakistan's other naval bases along the Makran coast, it is likely neither the first nor even second choice for PLAN vessels. Nevertheless, China appears to have significant influence in Pakistan, indicating that if China eventually decides to utilize Gwadar Port as a dual-use port, it will likely have no issues gaining access. It is unclear how much a difference it makes that a Chinese SOE is part owner and operator of the port; however, port concessions are not China's primary tools of influence. More likely, China will leverage its significant military, economic, and political ties to gain access agreements for PLAN vessels. The financial influence discussion reveals that similar circumstances surround Pakistan's Gwadar Port and Sri Lanka's Hambantota port, suggesting that China could conceivably leverage Pakistan's unsustainable debt for even more favorable port concessions. However, the Sri Lanka example and the case of Pakistan have one notable difference: while China seems to enjoy broad-based support across Pakistan's political spectrum, China's political base in Sri Lanka rests largely on a single, albeit influential, individual. The implication is that subsequent elections are not likely to affect China's political influence in Pakistan. Thus, based on the entire framework, Gwadar Port is not the most likely candidate for a dual-use port, but it is a viable candidate nonetheless.

## **D. CHAPTER OUTLINE**

This chapter proceeds by first assessing whether Gwadar Port has naval base potential, determining if Gwadar is strategically located, and assessing whether the port has essential naval infrastructure. Second, Gwadar Port's dual-use potential is compared to Pakistan's other naval bases along the Makran Coast. Third, China's influence in Pakistan is analyzed, focusing on each of the four forms mentioned above. The examination of China's financial influence in Pakistan includes a discussion of the often-mentioned debt-trap narrative as well as a brief mention of Sri Lanka's Hambantota port since, as will be illustrated, it provides a pertinent example to compare to Gwadar Port. The case of Sri Lanka is referred to again while discussing China's political influence, illustrating why the previous three forms of influence are necessary, but not sufficient for China to gain military access to Gwadar Port.

## **E. GWADAR PORT'S NAVAL BASE CHARACTERISTICS**

### **1. Strategic Location**

The first necessary condition determining Gwadar Port's strategic viability is whether it meets the minimum requirements for a dual-use port. At the most basic level, a dual-use port must first and foremost be situated in a strategic location. Strategically located on the Makran Coast, Gwadar Port fulfills this requirement. Gwadar Port is situated at the entrance of the Gulf of Oman, close to the oil-rich Persian Gulf region and the Strait of Hormuz, the world's most important oil chokepoint through which over 21 million barrels of oil pass each day.<sup>344</sup> Additionally, Gwadar Port is positioned close to major sea lines of communication but far from India, located on the opposite side of Pakistan's coastline as Karachi, which increases the warning time against airborne and seaborne threats originating from its eastern neighbor. Also, situated on the eastern bay of a hammerhead-shaped peninsula, Gwadar Port benefits from natural weather protection.

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<sup>344</sup> "The Strait of Hormuz Is the World's Most Important Oil Transit Chokepoint," U.S. Energy Information Administration (EIA), June 20, 2019, <https://www.eia.gov/todayinenergy/detail.php?id=39932>.

## 2. Port Characteristics and Infrastructure

For Gwadar Port to have strategic viability, it must have both the port characteristics and the infrastructure necessary to support the sustainment requirements of deployed vessels, i.e., does it have the minimum infrastructure to repair, refit, and sustain a PLAN vessel and its crew? The first question is whether PLAN vessels can berth there. At a depth of 12.5 meters, Gwadar Port is deep enough to accommodate most of the largest vessels in the PLAN surface fleet.<sup>345</sup> Based on Becker's research of PLA Navy surface ships sent to the Gulf of Aden for counterpiracy operations, the only two ships that would not fit in the 200-meter berths in Gwadar are China's aircraft carrier, the Liaoning, and the Type 071 Yuzhao-class LPD (amphibious transport dock).<sup>346</sup> But what of the rest of the necessary port requirements for military vessels? Yung and Rustici applied U.S. DOD (Department of Defense) Port Requirements to several "String of Pearls" candidates as they were in 2012, as well as how they are projected to be in 2035.<sup>347</sup> They found that all of the ports, Gwadar included, fell "far short of what DOD considers minimally acceptable to support major combat operations."<sup>348</sup> Still, they acknowledge that projected improvements will give some sites additional capabilities to support military operations.<sup>349</sup>

However, the PLA is not necessarily seeking to establish overseas bases to support major combat operations; therefore, not all the DOD Port Requirements are required. Yung and Rustici conducted many interviews with U.S. military logisticians with extensive experience supporting forward-deployed forces to determine what kind of logistics support the PLA is likely to require, not just for wartime but for peacetime too.<sup>350</sup> They found that the PLA port requirements depend on the nature of the PLA's operations overseas.<sup>351</sup> They

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<sup>345</sup> Gwadar Port Authority, "Port Profile."

<sup>346</sup> Downs, Becker, and deGategno, "China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base," 26.

<sup>347</sup> Yung and Rustici, "China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century," 36.

<sup>348</sup> Yung and Rustici, 37.

<sup>349</sup> Yung and Rustici, 37.

<sup>350</sup> Yung and Rustici, 39.

<sup>351</sup> Yung and Rustici, 39.

write, “If PLA overseas missions include NEOs, HA/DR, and force protection of citizens, the PLA over the long run might attempt to establish permanent basic access to a facility with communications, housing for sailors, medical facilities, rudimentary ship and equipment repair, and replenishment and resupply functions.”<sup>352</sup> However, they also note that if the PLAN includes SLOC protection, then the PLAN would also need to include “large ship repair sites, extensive medical and mortuary services, POL sites, ordnance storage sites, air traffic control services, and other air support facilities and operations.”<sup>353</sup> The PLA may aspire to one day protect its SLOCs, but for now, the former list of overseas missions more closely describes the current nature of PLAN overseas missions. Based on this, Yung and Rustici believe a Dual Use Logistics Facility Model mixing commercial and military facilities is fully compatible with the requirements of these missions.<sup>354</sup> A basic list of necessary logistics support capabilities Gwadar would then include, at a minimum, those necessary to replenish and maintain the PLAN vessels and those essential to replenish and maintain the sailors on the ships and personnel assigned to the logistics base. Therefore, for Gwadar to be strategically viable, it must have storage infrastructure for resupply and replenishment functions, warehousing or a distribution network to either store or deliver repair parts for vessels and aircraft, facilities to perform the maintenance and repair, and medical facilities for sailors and the Chinese working at the logistics base.

Gwadar appears to meet some of these requirements. Based on the Gwadar Port Authority website, Gwadar has the necessary infrastructure to replenish and resupply civilian and military vessels, such as open storage yard, refrigerated cargo space, and office space with adequate utilities and communication service.<sup>355</sup> Gwadar Port also has large warehouses to store spare parts for ships and aircraft, though this is not required. According to Yung and Rustici, the PLA will likely avoid stockpiling parts in forward locations but rather develop a complex distribution network of overseas China-based suppliers, husbanding agents, contractors, and logistics facilities to deliver spare parts where and

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<sup>352</sup> Yung and Rustici, 42–43.

<sup>353</sup> Yung and Rustici, 42–43.

<sup>354</sup> Yung and Rustici, 39–40.

<sup>355</sup> Gwadar Port Authority, “Port Profile.”

when required quickly.<sup>356</sup> Spare parts would be delivered to a repair facility by either ship or airplane.<sup>357</sup> In fact, with the help of \$246 million in Chinese grants, Gwadar will have an airport in the next couple of years.<sup>358</sup> Work on Gwadar International Airport began in 2019 and will be fully operational by September 2023.<sup>359</sup> Gwadar Port, therefore, appears to meet the basic requirements to replenish and resupply PLAN vessels, and when finished, the airport will provide the means to provide the repair parts required to maintain naval vessels.

A repair parts distribution network and an international airport may deliver parts to Gwadar necessary to maintain China's naval vessels; however, as Erickson and Carlson point out, this is only one piece of the puzzle.<sup>360</sup> Also essential to sustaining Far Seas operations, they explain, is “the ability to conduct sophisticated ship/aircraft repairs remotely, using either ship tenders or overseas repair facilities.”<sup>361</sup> As Yung and Rustici note, the PLA would also need “assured access, including permission to fly Chinese technicians into the host country, use maintenance and repair facilities, and conduct the necessary work on a damaged ship or aircraft.”<sup>362</sup> China and Pakistan's close military relationship likely means that Chinese technicians will not have an issue gaining access to Pakistan's ports; in some respects, they already have it. An article in *ANI* suggests that inducting Chinese-built naval vessels into its navy, such as the Type 054A frigates and eight Yuan-class submarines—four of which are to be built in Karachi—will increase

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<sup>356</sup> Yung and Rustici, “China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century,” 40.

<sup>357</sup> Yung and Rustici, 40.

<sup>358</sup> Prakash Panneerselvam and Amit Mukherjee, “China-Pakistan Economic Cooperation (CPEC) Project: Satellite Imagery Analysis of Port Development at Makran Coast” (National Institute of Advanced Studies, 2020), 246, <https://www.nias.res.in/sites/default/files/2020-RR-14.pdf>.

<sup>359</sup> Haseeb Hanif, “Completion of Gwadar Airport Delayed till Sept 2023,” *The Express Tribune*, August 30, 2021, <https://tribune.com.pk/story/2317722/completion-of-gwadar-airport-delayed-till-sept-2023>.

<sup>360</sup> Andrew Erickson and Christopher Carlson, “Janes: Sustained Support: The PLAN Evolves Its Expeditionary Logistics Strategy,” accessed November 1, 2021, <https://customer.janes.com/Janes/Display/jni77511-jni-2016>.

<sup>361</sup> Erickson and Carlson.

<sup>362</sup> Yung and Rustici, “China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century,” 42.

Pakistan's reliance on local Chinese technical expertise, which the PLAN could leverage to repair its own vessels.<sup>363</sup>

Local technical expertise is necessary to work on damaged Chinese ships and aircraft, but so are overseas repair facilities. Gwadar currently lacks adequate ship repair facilities; however, this is changing. In February, Pakistan's federal government and the provincial government in Balochistan signed a memorandum of understanding to establish a shipyard in Gwadar.<sup>364</sup> According to an article in *Dawn*, the shipyard will also provide repairing and training facilities in addition to shipbuilding.<sup>365</sup> However, these facilities are not likely to be available for several years. According to the article, the Federal Minister for Defense Production, Zubaida Jalal, said the project will take a minimum of two to three years following the completion of the feasibility study.<sup>366</sup> However, this is the best-case scenario. CPEC projects are routinely delayed. Furthermore, it will not help that the funding for the Gwadar shipyard will compete with funding for the Karachi port upgrades.<sup>367</sup> Nevertheless, plans to build a shipyard in Gwadar are underway, meaning the port will eventually be a suitable location for maintaining and repairing Chinese vessels overseas.

A repair parts distribution network and overseas repair facilities are necessary to maintain PLAN vessels; however, if the PLA maintains an overseas presence, it will also need access to medical facilities to support its sailors and overseas civilian technicians. Progress is already being made. The Chinese government has financed the construction of the Pak-China Friendship Hospital in Gwadar.<sup>368</sup> The hospital, which will have six

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<sup>363</sup> "What Is China's Military Aspiration for Gwadar?," *ANI News*, August 17, 2020, <https://www.aninews.in/news/world/asia/what-is-chinas-military-aspiration-for-gwadar20200817154502/>.

<sup>364</sup> Saleem Shahid, "MoU Signed for Building Gwadar Shipyard," *DAWN.Com*, February 3, 2021, <https://www.dawn.com/news/1605199>.

<sup>365</sup> Shahid.

<sup>366</sup> Shahid.

<sup>367</sup> Parvaiz Ishfaq Rana, "Karachi Port Poised for Massive Infrastructure Upgrade," *DAWN.Com*, November 19, 2017, <https://www.dawn.com/news/1371411>.

<sup>368</sup> "Pak-China Friendship Hospital to Provide Modern Facilities to People of Gwadar," *Daily Times*, October 17, 2021, <https://dailytimes.com.pk/830656/pak-china-friendship-hospital-to-provide-modern-facilities-to-people-of-gwadar/>.

medical blocks, each with 50 beds, will also include nursing and paramedical institutes, a medical college, and a central laboratory.<sup>369</sup> Like the PLA Support Base hospital in Djibouti, the Pak-China Friendship hospital will provide the PLA soldiers, sailors, and personnel access to medical care without having to be flown back to China.

### **3. Conclusions about Gwadar Port's Naval Base Characteristics**

Gwadar Port seems to be a viable candidate for a dual-use logistics base. In general, a PLA logistics base in Gwadar will not require a large footprint. Based on their current mission set, a handful of essential dual-use facilities and infrastructure are all that is necessary to sustain the PLAN overseas. While the essential infrastructure is not yet all built, it is well on its way. The port itself can accommodate all but the PLAN's largest vessels. Chinese technicians will likely already have access to Pakistan's ports based on the increasing prevalence of China-built ships in the Pakistani Navy. Furthermore, a PLA logistics base is not likely to require a large personnel footprint. Based on interviews with experts at the Center for Joint and Strategic Logistics, Yung and Rustici reckon the PLAN would only need between 100 and 150 people.<sup>370</sup> If a commercial air shipping component to perform air supply chain management functions is included, they estimate this would add 350 people.<sup>371</sup> The total necessary personnel then comes to around 500 people, which Yung and Rustici point out, is the same size as the Chinese logistics base in Qingdao.<sup>372</sup> Thus, the evidence suggests that Gwadar could in the future be a viable candidate for a future PLAN logistics base. However, while Gwadar Port might be a viable option for PLAN vessels, how does the port compare to other naval facilities in Pakistan?

### **F. GWADAR COMPARED TO OTHER PAKISTANI NAVAL BASES**

It is one thing for Gwadar Port to have the minimum capability and capacity to accommodate PLAN vessels. It is another for it to be the port of choice for PLAN vessels.

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<sup>369</sup> Daily Times, "Pak-China Friendship Hospital to Provide Modern Facilities to People of Gwadar."

<sup>370</sup> Yung and Rustici, "China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century," 43.

<sup>371</sup> Yung and Rustici, 43.

<sup>372</sup> Yung and Rustici, 43.



Beijing will likely only utilize the Gwadar Port to refuel, repair, and replenishment its ships and aircraft if it is as capable, or more capable, than Pakistan's other naval bases along the Makran Coast. This does not appear to be the case based on available evidence; other Pakistani naval bases stand out as far superior. Of the several more capable bases along the Makran Coast, the obvious choice is Karachi. As Mohan writes, if China were to berth its navy in Pakistan, they would likely do so in Karachi.<sup>373</sup> Kostecka agrees, he writes, "For all the hype about Gwadar, it is far more likely that Beijing would send its warships to Karachi, Pakistan's largest port and primary naval base, if it were to seek a facility in Pakistan to support its forces."<sup>374</sup>

### 1. Karachi Port

First, China is already accustomed to using Karachi to dock its naval vessels. According to Kostecka, "In its twenty-five years of goodwill cruises and exercises with foreign navies, the PLAN has visited Karachi more often—seven times, including three in the past three years—than any other port."<sup>375</sup> In a study of China's presence in the Middle East and Western Indian Ocean, Becker, Downs, and DeThomas found that China has visited Karachi 10 times since 2008.<sup>376</sup> When the PLAN conducts goodwill and training visits in Pakistan, Karachi is where its warships dock.<sup>377</sup> Notably, Chinese submarines have also docked in Karachi.<sup>378</sup>

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<sup>373</sup> C. Raja Mohan, *Samudra Manthan: Sino-Indian Rivalry in the Indo-Pacific* (Brookings Institution Press, 2012), 167.

<sup>374</sup> Mohan, 167.

<sup>375</sup> Daniel J. Kostecka, "Places and Bases: The Chinese Navy's Emerging Support Network in the Indian Ocean," *Naval War College Review* 64, no. 1 (Winter 2011): 71.

<sup>376</sup> Jeffrey Becker et al., "China's Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road" (Center for Naval Analyses, February 2019), 41, [https://www.cna.org/CNA\\_files/PDF/DRM-2018-U-018309-Final2.pdf](https://www.cna.org/CNA_files/PDF/DRM-2018-U-018309-Final2.pdf).

<sup>377</sup> Shailaja Neelakantan, "Four Chinese Warships Arrive on Shores of 'all-Weather Friend' Pakistan for 'Training' Mission," *The Times of India*, accessed October 6, 2021, <https://timesofindia.indiatimes.com/world/pakistan/four-chinese-warships-arrive-on-shores-of-all-weather-friend-pakistan-for-training-mission/articleshow/59093648.cms>.

<sup>378</sup> "Chinese Submarine Docking in Karachi No Threat to India: PLA," *The Economic Times*, July 12, 2018, <https://economictimes.indiatimes.com/news/defence/chinese-submarine-docking-in-karachi-no-threat-to-india-pla/articleshow/47891331.cms?from=mdr>.

Second, Karachi port is better able to satisfy PLAN requirements than Gwadar. First, Karachi has repair facilities. As Small points out, Karachi “is already its [China’s] main repair facility in the Indian Ocean.”<sup>379</sup> Karachi is home to Pakistan Naval Dockyard and the Karachi Shipyard and Engineering Works (KESW), which provide considerable ship construction and repair facilities.<sup>380</sup> According to the Karachi Shipyard site, they have a “comprehensive setup for repairing, rebuilding and overhauling of naval and commercial vessels” and are “well equipped with docks, cranes, as well as the best tools and machinery to undertake above and underwater repairs.”<sup>381</sup> Inaugurated in August 2021, a fully functional Ship Lift and Transfer System enables KESW to undertake the construction and repair of up to 12 ships simultaneously and lift 7,400 tons.<sup>382</sup> Furthermore, the shipyard has extensive experience repairing naval vessels and many other clients. According to the shipyard’s site, KESW “regularly undertake [s] steel renewal, major structure repairs, machinery overhauls and underwater repairs for Pakistan Navy, Pakistan Maritime Security Agency, Karachi Port Trust, Port Qasim Authority and a number of foreign clients.”<sup>383</sup> The repair facilities of the Karachi shipyard are vastly better suited to accommodate naval vessels than Gwadar.

Moreover, the facilities in Karachi are receiving upgrades to make them even more capable. According to Haq, the KESW expansion includes berthing facilities, two drydocks, one 26,000 dead weight ton and the other 18,000 dead weight tons, and foundry and fabrication facilities to cover every aspect of ship construction.<sup>384</sup> Adjacent to these facilities is the Pakistan Navy Dockyard, whose facilities were upgraded by the French

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<sup>379</sup> Small, *The China-Pakistan Axis: Asia’s New Geopolitics*, 105.

<sup>380</sup> Kostecka, “Places and Bases,” 71.

<sup>381</sup> “Karachi Shipyard,” Karachi Shipyard, accessed October 23, 2021, <https://www.karachishipyard.com.pk/page/ship-repair>.

<sup>382</sup> “PM Imran Inaugurates Ship Lift and Transfer System at Karachi Shipyard in Rare Visit to Port City,” *DAWN.Com*, August 10, 2021, <https://www.dawn.com/news/1639856>.

<sup>383</sup> Karachi Shipyard, “Karachi Shipyard.”

<sup>384</sup> Riaz Haq, “Karachi Shipyard to Get Boost From Pak Navy Modernization,” *South Asia Investor Review* (blog), June 18, 2015, <https://www.southasiainvestor.com/2015/06/karachi-shipyard-to-get-boost-from-pak.html>.

while constructing the Agosta-90B submarines.<sup>385</sup> China will also construct four diesel-electric Type 41 Yuan-class submarines in Karachi.<sup>386</sup> In 2016, China Shipbuilding Industry Corporation confirmed a \$4-5 billion contract supplying Pakistan with eight non-nuclear submarines and a training center in Karachi.<sup>387</sup> The first four will be constructed in China, but the remaining four will be made in KSEW.<sup>388</sup> As Kostecka explains, it is significant for ships such as the Chinese-built F-22P frigates to be built and based in Pakistan.<sup>389</sup> He writes, “These warships, which most likely enjoy some degree of parts commonality with PLAN frigates, and extensive repair facilities, make Karachi a strong candidate as a friendly port where China would seek to repair any ships damaged operating in the Indian Ocean.”<sup>390</sup> Baker further elaborates this point, explaining that a Pakistani naval facility that already berths compatible submarines would be beneficial to China because “it would remove the need to permanently station a large number of personnel and equipment abroad, while providing adequate maintenance facilities for the sort of routine repairs that submarines unavoidably need in order to function smoothly over long periods of time.”<sup>391</sup> Karachi already has the advantage over Gwadar when it comes to shipbuilding and repair facilities; the presence of personnel and compatible repair equipment makes it the clear choice for PLAN ships seeking repair. Kostecka points out one final advantage of Karachi over Gwadar: the proximity of Pakistan Navy Station (PNS) Mehran, Pakistan’s primary naval aviation facility.<sup>392</sup> Just as Karachi houses Chinese-built frigates and, soon,

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<sup>385</sup> Haq.

<sup>386</sup> The Week, “Pakistan Expanding Karachi Shipyard to Build Chinese-Designed Submarines?,” *The Week*, October 7, 2020, <https://www.theweek.in/news/world/2020/10/07/pakistan-expanding-karachi-shipyard-to-build-chinese-designed-submarines.html>.

<sup>387</sup> Franz-Stefan Gady, “China Confirms Export of 8 Submarines to Pakistan,” *The Diplomat*, October 19, 2016, <https://thediplomat.com/2016/10/china-confirms-export-of-8-submarines-to-pakistan/>.

<sup>388</sup> The Week, “Pakistan Expanding Karachi Shipyard to Build Chinese-Designed Submarines?”

<sup>389</sup> Kostecka, “Places and Bases,” 71.

<sup>390</sup> Kostecka, 71.

<sup>391</sup> Benjamin David Baker, “Revealed: Why China Is Selling Submarines to Pakistan,” *The Diplomat*, September 28, 2015, <https://thediplomat.com/2015/09/revealed-why-china-is-selling-submarines-to-pakistan/>.

<sup>392</sup> Kostecka, “Places and Bases,” 71.

Chinese-built submarines, PNS Mehran bases six Chinese-made Z-9EC helicopters.<sup>393</sup> According to Kostecka, this is the primary helicopter China deploys on its destroyers and frigates.<sup>394</sup> Thus, he point out, should the helicopters attached to Chinese vessels deployed in the region require parts or repairs, PNS Mehran near Karachi is where they would get them.<sup>395</sup>

Karachi port is the obvious choice for PLAN port calls and repairs, whether because of its familiarity or because of its superior repair facilities able to maintain its submarines, destroyers, frigates, and helicopters. For a further comparison of port characteristics and supplies provided, see Table 3 and Table 4.

Table 3. Port Characteristics<sup>396</sup>

	<b>Channel</b>	<b>Anchorage</b>	<b>Max Size</b>	<b>Cargo Pier</b>	<b>Turning Area</b>	<b>Oil/LNG</b>	<b>Dry Dock</b>	<b>Railway</b>
<b>Gwadar</b>	H	H	G	NL	Y	NL	NL	NL
<b>Karachi</b>	H	H	L	H	Y	G	L	L

G-14.0-15.2 meters; H-12.5-13.7 meters; L-Over 500'; M-Up to 500'; Y=yes; NL-Not Listed.

Table 4. Port Supplies<sup>397</sup>

	<b>Provisions</b>	<b>Water</b>	<b>Fuel Oil</b>	<b>Diesel Oil</b>	<b>Deck</b>	<b>Engine</b>
<b>Gwadar</b>	NL	NL	NL	NL	NL	NL
<b>Karachi</b>	Y	Y	Y	Y	Y	Y

NL-Not Listed; Y-Yes

<sup>393</sup> Kostecka, 71.

<sup>394</sup> Kostecka, 71.

<sup>395</sup> Kostecka, 71.

<sup>396</sup> Adapted from National Geospatial Intelligence Agency, “2019 World Port Index” (National Geospatial Intelligence Agency, 2019), <https://msi.nga.mil/api/publications/download?key=16694622/SFH00000/Pub150bk.pdf&type=view>.

<sup>397</sup> Adapted from National Geospatial Intelligence Agency.

## **2. Jinnah Naval Base**

While Karachi is the primary naval base in Pakistan and the most likely port of call for PLAN vessels, that does not mean Gwadar is necessarily the secondary choice. Located 285 kilometers on the other side of Gwadar Port in Ormara is Jinnah Naval Base (JNB), Pakistan's second-largest base.<sup>398</sup> According to Panneerselvam and Mukherjee, JNB was developed after the India-Pakistan war in 1971 highlighted Karachi's vulnerability to attack.<sup>399</sup> According to their analysis, JNB has been recently upgraded to provide logistic and technical support to all types of naval vessels, which will soon allow them to overhaul surface ships and submarines.<sup>400</sup> JNB has two piers, two wharves, and space for eight warships and submarines.<sup>401</sup> JNB has the advantage over Gwadar in hardened military facilities and force protection capabilities. According to Panneerselvam and Mukherjee, JNB has several underground facilities, protected by concrete and cement, housing military complexes such as test sites, missile storage, and radar equipment. Additionally, the base is protected by a sub-sonic anti-ship cruise missile system, the Zarb, which has a range of 280 km.<sup>402</sup> While Karachi might be the primary port for repairs, JNB's advantages include hardened facilities to store ordnance and the radar and weapon systems to protect the ships and submarines moored at its piers. If Karachi Port is the primary choice for PLAN vessels, JNB is likely the second.

## **3. Conclusions about Makran Coast Naval Bases**

Gwadar Port may possess the minimum requirements to accommodate naval vessels, but it is far from China's likely future choice to moor PLAN vessels. As Panneerselvam and Mukherjee point out, Gwadar's development as a civilian port reduces its military value compared to the other bases designed for naval vessels, not commercial

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<sup>398</sup> Panneerselvam and Mukherjee, "China-Pakistan Economic Cooperation (CPEC) Project: Satellite Imagery Analysis of Port Development at Makran Coast," 14.

<sup>399</sup> Panneerselvam and Mukherjee, 14.

<sup>400</sup> Panneerselvam and Mukherjee, 14.

<sup>401</sup> Panneerselvam and Mukherjee, 18.

<sup>402</sup> Panneerselvam and Mukherjee, 15.

ones.<sup>403</sup> The naval bases in Karachi and Ormara are the most likely locations for PLAN vessels due to their superior repair, logistics, and military facilities. If China wanted to develop one of Pakistan's ports for military use, China is more likely to do so at one of these locations and not Gwadar, at least for now.

## **G. CHINA'S INFLUENCE IN PAKISTAN**

While the factors discussed thus far are necessary factors for determining Gwadar Port's strategic viability, none of them matter if China cannot gain military access to Pakistan's ports. Therefore, the deciding factor in this discussion is whether China possesses the influence to obtain access agreements from Islamabad. Many forms of influence could help facilitate such agreements. One such form that raises several important questions is the presence of a Chinese SOEs that manages and part-owns Gwadar Port. First, does the fact that a Chinese SOE has part ownership and operates Gwadar mean that the PLA can coordinate with the SOE to use the commercial port facilities? Second, how much influence does the Chinese government exert on Chinese SOEs? Third, how much influence can Chinese SOEs exert on the host country? Finally, which port concessions provide China the most influence in Gwadar Port?

### **1. Influence in Gwadar Port from Favorable Port Concessions**

How much sway does the Chinese government have over overseas SOEs? At face value, it is tempting to assume that the presence of state-owned enterprises with ties to the CCP means Beijing has assured political influence over projects like the Gwadar Port project. However, as Kardon notes, "state-run" does not mean an enterprise is managed by state bureaucrat, or even a party cadre member.<sup>404</sup> It does mean, he writes, that the executive who is managing that firm was appointed by China's State Council via the State Assets Supervision Administration Commission (SASAC).<sup>405</sup> Therefore, at least in some

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<sup>403</sup> Panneerselvam and Mukherjee, 11.

<sup>404</sup> Kardon, "A 'World-Class' Military: Assessing China's Global Military Ambitions: Testimony before the U.S.-China Economic and Security Review Commission," 9.

<sup>405</sup> Kardon, 9.

respects, Kardon concludes, that politically appointed executive can be “reliably considered an agent of the state.”<sup>406</sup>

However, Kardon himself also acknowledges that the degree of state control over firm activities should not be overstated, and politically-empowered executives may be able to act with greater autonomy than if they were a private firm, dependent on the state’s “good will and patronage.”<sup>407</sup> Lampton offers that rather than representing a clear and uniform set of interests, “the Chinese state is often an abstraction.”<sup>408</sup> He writes, “Beijing usually exerts little control over (and often has even less information about) the activities and operations of ‘its’ state enterprises overseas.”<sup>409</sup> Thus, we should not underestimate the ability of overseas state-owned enterprises to resist state control. Nevertheless, state ownership seems to offer an avenue for the central state to exert some degree of influence.

Another important consideration when weighing the importance of state ownership is that not all SOEs are created equal. For example, consider two Chinese SOEs that account for a large proportion of China’s overseas port operations. COSCO Shipping Ports Limited (COSCO), formerly controlled directly by the PRC Ministry of Transport, perhaps best fits what most people might think of when they envision a Chinese SOE.<sup>410</sup> According to Kardon, the firms’ “lack of transparency and appetite for loss-making ventures,” enabled by Beijing’s considerable financial support, make it the “most-likely candidate” to see Beijing’s influence.<sup>411</sup> On the other hand, Kardon writes that China Merchants Port Holdings Company Limited (CMPort), an SOE with “independent origins as a Hong Kong trading house,” has a much different political reputation and strategy than COSCO.<sup>412</sup>

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<sup>406</sup> Kardon, 9.

<sup>407</sup> Isaac B Kardon, “Chinese Military Power Projection and U.S. National Interests: Testimony before the U.S.-China Economic Security Review Commission” (U.S.-China Economic and Security Review Commission, February 20, 2020), 3.

<sup>408</sup> David M. Lampton, *Following the Leader: Ruling China, from Deng Xiaoping to Xi Jinping* (Berkeley: University of California Press, 2014), 90.

<sup>409</sup> Lampton, 90.

<sup>410</sup> Isaac Kardon, “Research & Debate—Pier Competitor: Testimony on China’s Global Ports” 74, no. 1 (2021): 132.

<sup>411</sup> Kardon, 132.

<sup>412</sup> Kardon, 132–33.

China Overseas Port Holding Company (COPHC), the central SOE that jointly owns—alongside the Gwadar Port Authority—and operates the port of Gwadar, seems to be cut from a similar cloth as COSCO. According to the chairman of COPHC, the firm was “specially designed and purposely built for the construction of the Gwadar Port by the Chinese government.”<sup>413</sup> As Becker et al. note, it is unclear “which part of the Chinese government is the ultimate owner.”<sup>414</sup> Nevertheless, its origin as a SOE specifically designed to operate Gwadar Port suggests the Chinese government may have more influence in COPHC than say CMPort.

A related and important question is whether the National Defense Transportation Law of the People’s Republic of China, enacted in September 2016, has any implications for the state obligations of firms like COSCO, CM Port, and COPHC. Among other things, the law places certain obligations on international shipping firms related to national defense.<sup>415</sup> Specifically, Article 38 obligates overseas transportation businesses to provide for the resupply of ships carrying out “international rescue, maritime escort, and military operations to safeguard the overseas interests of the state.”<sup>416</sup> Article 51 establishes “a system of reserves of national defense transportation materials to ensure the need for smooth national defense traffic in special circumstances in wartime and peacetime.”<sup>417</sup> The law suggests that the state retains the prerogative to utilize overseas shipping firms, such as COSCO, CMPort, and COPHC, in the name of national defense. In fact, according to Kardon, COSCO and CMPort container ships and roll-on/roll-off (RO/RO) vessels have

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<sup>413</sup> Yasir Habib Khan, “China Overseas Port Holding Company Was Made Specifically to Build the Gwadar Port: Chairman,” accessed November 4, 2021, <https://www.geo.tv/latest/237251-our-company-was-made-specifically-to-build-the-gwadar-port>.

<sup>414</sup> Becker et al., “China’s Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road,” 89–90.

<sup>415</sup> “The National Defense Traffic Law of the People’s Republic of China,” The National People’s Congress of the People’s Republic of China, accessed October 21, 2021, [http://www.npc.gov.cn/zgrdw/npc/xinwen/2016-09/03/content\\_1996764.htm](http://www.npc.gov.cn/zgrdw/npc/xinwen/2016-09/03/content_1996764.htm).

<sup>416</sup> The National People’s Congress of the People’s Republic of China, “The National Defense Traffic Law of the People’s Republic of China.”

<sup>417</sup> The National People’s Congress of the People’s Republic of China, “The National Defense Traffic Law of the People’s Republic of China.”



participated in multiple civil-military fusion exercises.<sup>418</sup> Kennedy writes that during an exercise conducted in September 2016 by the Northern Theater Command, COSCO's RO-RO ships transported ammunition for the first time.<sup>419</sup> As Kardon points out, since replenishing the Chinese military overseas is not the state-owned enterprises' main responsibility, procurement channels are limited, so it may not be a reliable method of sustaining and supporting combat vessels.<sup>420</sup> Nevertheless, it demonstrates the viability and willingness of overseas state-owned shipping firms to support the PLAN.

Whether the overseas SOE is willing to accommodate Beijing's interest is one thing; whether the host country is also willing is another matter. The next important question to consider is how much influence port concessions provide the SOE in port operations. For example, does China's long-term lease of Gwadar Port grant it leverage? Thorne and Spevack point out that leases do not necessarily mean that China can act independently of the host country.<sup>421</sup> Under the contract, the Chinese firm-COPHC operates the port on a 40-year contract, which it took over from the Port of Singapore Authority (PSA) in 2013.<sup>422</sup> Notably, however, the port remains the property of Pakistan.<sup>423</sup> According to Kardon, port operation means that China is "responsible for purchasing and maintaining cranes and other container ship handling equipment, hiring labor, managing customer relations, and running day-to-day terminal operations."<sup>424</sup> "A terminal operator," Kardon writes, "will have significant discretion in granting access for

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<sup>418</sup> Kardon, "Research & Debate—Pier Competitor: Testimony on China's Global Ports," 135.

<sup>419</sup> Conor Kennedy, "China Maritime Report No. 4: Civil Transport in PLA Power Projection" (China Maritime Studies Institute, December 2019), 12, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/4>.

<sup>420</sup> Kardon, "Research & Debate—Pier Competitor: Testimony on China's Global Ports," 135–36.

<sup>421</sup> Thorne and Spevack, "Harbored Ambitions: How China's Port Investments Are Strategically Reshaping the Indo-Pacific," 31.

<sup>422</sup> Raza, "China given Contract to Operate Gwadar Port."

<sup>423</sup> Raza.

<sup>424</sup> Kardon, "Chinese Military Power Projection and U.S. National Interests: Testimony before the U.S.-China Economic Security Review Commission," 3.

naval vessels seeking to call, warehousing and storage, bunkering, as well as use of dry dock, medical, power, and other terminal facilities.”<sup>425</sup> Becker adds that a port operator:

Controls the pilots and tugs that assist large ships when entering and leaving a port, allocates ships to berths, and is responsible for port storage. In short, port authorities know when ships, including USN and U.S. Coast Guard vessels, arrive at port, where they dock, what they carry, where they store cargo, and when that cargo gets picked up.<sup>426</sup>

Thus, as Kardon writes, “Majority or sole ownership of the port operator is the condition that best positions a firm to guarantee logistical support for naval operations.”<sup>427</sup>

While sole ownership of Gwadar Port operation means that China has significant influence in what happens in Gwadar, it does not mean that Pakistan has given up its sovereign territory. It still retains the final say in what goes on at the port. The case of Sri Lanka provides a salient example of why this matters. In July 2017, Sri Lanka’s government signed a concession agreement giving China’s CM Port a 70 percent stake in Hambantota port on a 99-year lease.<sup>428</sup> Sri Lanka Ports Authority (SLPA) holds the remaining 30 percent of the stake.<sup>429</sup> Though not the same as the Gwadar Port concessions—CM Port and SLPA jointly operate Hambantota port operations—the parallels are still evident. CM Port handles a significant portion of Hambantota’s port operations while the government of Sri Lanka retains ownership of the port.<sup>430</sup> Considering Chinese submarines had previously docked in Colombo on two separate occasions in 2014, some analysts suggested that China’s favorable port concessions in

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<sup>425</sup> Kardon, 3.

<sup>426</sup> Jeffrey D. Becker, “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain: Testimony before the House Committee on Transportation and Infrastructure and Subcommittee on Coast Guard and Maritime Transportation,” October 17, 2019, 7, <https://docs.house.gov/meetings/PW/PW07/20191017/109805/HHRG-116-PW07-Wstate-BeckerJ-20191017.pdf>.

<sup>427</sup> Kardon, “Chinese Military Power Projection and U.S. National Interests: Testimony before the U.S.-China Economic Security Review Commission,” 3.

<sup>428</sup> Umesh Moramudali, “The Hambantota Port Deal: Myths and Realities,” *The Diplomat*, January 1, 2020, <https://thediplomat.com/2020/01/the-hambantota-port-deal-myths-and-realities/>.

<sup>429</sup> Moramudali.

<sup>430</sup> Moramudali.

Hambantota would lead to similar PLAN visits.<sup>431</sup> However, in May of 2017, only months before the deal in July, President Maithripala Sirisena's government turned down a request by China for a submarine call at Colombo.<sup>432</sup> After the deal, President Maithripala Sirisena's government stood by its decision, and in June of 2018, the prime minister's office put out a statement explicitly affirming its position not to allow China to use Hambantota Port for military purposes.<sup>433</sup> After coming to power in January 2015, President Maithripala Sirisena promised to loosen the close ties with Beijing that his predecessor, President Mahinda Rajapakse, had established.<sup>434</sup> This example illustrates that port concessions, while providing a certain degree of influence, may be secondary to more important factors that influence the host country.

Analysts note that implementing a Dual Use Logistics Facility model is most likely in countries in which China has a longstanding friendly relationship with established political, economic, and security relationships.<sup>435</sup> Becker et al. write, "Any future base location would undoubtedly have to have support from—at least—the country's political and economic elite. In the case of Djibouti, China appears to have consciously cultivated support through Chinese investments and the PLA's expanded military-diplomatic efforts years before signing the base agreement."<sup>436</sup> Kaplan writes that the dual-use civilian-military facility concept will be "completely dependent on the health of the bilateral

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<sup>431</sup> Shihar Aneez and Ranga Sirilal, "Chinese Submarine Docks in Sri Lanka despite Indian Concerns," *Reuters*, November 2, 2014, <https://www.reuters.com/article/us-sri-lanka-china-submarine-idUSKBN0IM0LY20141102>.

<sup>432</sup> South China Morning Post, "Sri Lanka Refuses Port Call for Chinese Submarine after Indian Leader Modi's Visit," *South China Morning Post*, May 12, 2017, <https://www.scmp.com/news/asia/diplomacy/article/2094093/sri-lanka-refuses-port-call-chinese-submarine-after-indian>.

<sup>433</sup> "Sri Lanka to Base Navy's Southern Command at Chinese-Run Port," *South China Morning Post*, June 30, 2018, sec. News, <https://www.scmp.com/news/china/diplomacy-defence/article/2153246/sri-lanka-base-navys-southern-command-chinese-run>.

<sup>434</sup> South China Morning Post, "Sri Lanka Refuses Port Call for Chinese Submarine after Indian Leader Modi's Visit."

<sup>435</sup> Kardon, "Chinese Military Power Projection and U.S. National Interests: Testimony before the U.S.-China Economic Security Review Commission," 3; Wang, "The Realities of China's Overseas Port Push"; Wuthnow, "Chinese Perspective on the Belt and Road Initiative: Strategic Rationales, Risks, and Implications," 47.

<sup>436</sup> Becker et al., "China's Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road," 107.

relationship in question.”<sup>437</sup> This might be one reason China has cultivated political, military, and economic ties with Pakistan.

## 2. Influence in Gwadar Port from Military Ties

The most apparent means of influence that might facilitate PLAN access to Pakistani ports is China’s military ties with Pakistan. China speaks highly of the increasingly close security relationship. In 2018, Zhang Youxia, deputy chairman of China’s Central Military Commission, reiterated the “all weather strategic cooperative” partnership, describing the China-Pakistan military ties as the “backbone” of China and Pakistan relations.<sup>438</sup> Senior Colonel Tan Kefei, spokesperson for China’s Ministry of National Defense, in December last year praised the all-weather strategic cooperative partnership between China and Pakistan, saying “it could only get better in the future.”<sup>439</sup> According to the article in *China Military Online*, he also emphasized the recent “close high-level strategic communication” and “pragmatic cooperation,” a testament to their brotherhood and friendship.<sup>440</sup> In late 2020, China and Pakistan signed a Memorandum of Understanding (MoU), further formalizing their security cooperation and indicating a desire to, as the Chinese Defense Minister General Wei Fengshe put it, “push the mil-to-mil relationship to a higher level.”<sup>441</sup>

China enhances its military influence in Pakistan by actively engaging in military diplomacy, such as military sales and joint military exercises. Kardon writes that these components of military diplomacy “are consequential for forging relationships conducive

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<sup>437</sup> Robert D. Kaplan, *Monsoon : The Indian Ocean and the Future of American Power* (New York: Random House, 2010), 11.

<sup>438</sup> Ben Blanchard, “China Says Military Ties ‘backbone’ to Relations with Pakistan,” *Reuters*, September 18, 2018, <https://www.reuters.com/article/us-china-pakistan-defence-idUSKCN1LZ03P>.

<sup>439</sup> Xinjuan Wang, “China-Pakistan Relations Can Only Get Better: Defense Spokesperson,” *China Military Online*, December 31, 2020, [http://eng.mod.gov.cn/news/2020-12/31/content\\_4876253.htm](http://eng.mod.gov.cn/news/2020-12/31/content_4876253.htm).

<sup>440</sup> Wang.

<sup>441</sup> Rajeswari Pillai Rajagopalan, “The China-Pakistan Partnership Continues to Deepen,” *The Diplomat*, July 9, 2021, <https://thediplomat.com/2021/07/the-china-pakistan-partnership-continues-to-deepen/>.

to allowing Chinese military access to ports on foreign shores.”<sup>442</sup> He points out that China’s arms sales are disproportionately concentrated in South Asia, and three states in particular: Pakistan, Burma, and Bangladesh, who, between 2008 and 2018, accounted for over 60 percent of China’s arms transfers.<sup>443</sup> China is, in fact, Pakistan’s main weapons supplier. As Small writes, “For decades, Beijing has been Pakistan’s only wholly reliable weapons supplier, and SIPRI’s most recent report shows that China has sold Pakistan over half the arms it imported in the last five years.”<sup>444</sup> According to the 2020 SIPRI Trends in International Arms Transfers report, between 2016 and 2020, nearly 40 percent of China’s total arms exports went to Pakistan.<sup>445</sup> China provided 74 percent of Pakistan’s weapons imports during this period.<sup>446</sup> The report also noted that Pakistan had several large outstanding Chinese arms orders scheduled for delivery by 2028, including 50 combat aircraft, eight submarines, and four frigates.<sup>447</sup> At the beginning of this year, the second of four Type 054A/P Frigates was launched for Pakistan in Shanghai.<sup>448</sup> According to Pakistan’s Navy Chief Naval Overseer, these platforms will “significantly enhance Pakistan’s maritime defense and deterrence capabilities.”<sup>449</sup> The Chief of the Naval Staff of the Pakistan Navy told the *Global Times* that with modern surface, subsurface and anti-air weapons, sensors and combat management systems, the ships would be “some of the most technologically advanced platforms of the Pakistan Surface Fleet.”<sup>450</sup>

Also significant is Pakistan’s purchase of eight Chinese submarines, which, according to the Pakistani Ministry of Defense, are meant to “address force imbalance with

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<sup>442</sup> Kardon, “Research & Debate—Pier Competitor: Testimony on China’s Global Ports,” 139.

<sup>443</sup> Kardon, 139.

<sup>444</sup> Andrew Small, “China-Pakistan: A Strategic Relationship in the Shadows,” Yale Global Online, April 7, 2015, <https://archive-yaleglobal.yale.edu/content/china-pakistan-strategic-relationship-shadows>.

<sup>445</sup> Pieter Wezeman, Alexandra Kuimova, and Siemon Wezeman, “Trends in International Arms Transfers, 2020” (Stockholm International Peace Research Institute, March 2021), 1.

<sup>446</sup> Wezeman, Kuimova, and Wezeman, 6.

<sup>447</sup> Wezeman, Kuimova, and Wezeman, 9.

<sup>448</sup> Xuanzun Liu, “China Launches 2nd Type 054A/P Frigate for Pakistan - Global Times,” accessed October 21, 2021, <https://www.globaltimes.cn/page/202101/1214356.shtml>.

<sup>449</sup> Liu.

<sup>450</sup> Liu.

India.”<sup>451</sup> According to Gady, at the cost of between \$4-5 billion, the arms deal is Pakistan’s most expensive yet.<sup>452</sup> Additionally, Gady notes that China will assist Pakistan in building two Qing-class submarines at the Submarine Rebuild Complex at Ormara, west of Karachi.<sup>453</sup> The sale and joint construction of technologically advanced warships have important implications for Chinese military access to Pakistan’s ports; it means Pakistan’s naval facilities will be increasingly compatible with China’s naval vessels. For instance, the four new Chinese frigates slated for the security and defense of Gwadar Port will help facilitate the port’s ability to accommodate PLAN vessels in the future. Furthermore, as Kardon points out, “Given the growing sophistication of some of these exports (such as submarines, surface combatants, and unmanned aerial vehicles), they also invite ongoing Chinese technical assistance.”<sup>454</sup> Illustrating this point, Kardon highlights the sale of two Ming-class Type 035B diesel-electric submarines to Bangladesh:

While these affordable but obsolete submarines were not capable platforms, they came packaged with Chinese personnel to “supervise the construction” as well as PLAN crews to train the Bangladeshi submariners. Furthermore, PLAN vessels began calling in Bangladesh in 2016 once the submarines were delivered, and by 2019 Bangladesh was negotiating with China to build it a submarine base.<sup>455</sup>

There are a lot of similarities between China’s military sales to Bangladesh and China’s military sales to Pakistan. While Pakistan was the top recipient of Chinese arms exports between 2016–2020, Bangladesh was the second.<sup>456</sup> China accounted for 71 percent of Bangladesh’s arms imports in the same period.<sup>457</sup> China’s major arms sales to Bangladesh also bear similarities to major arms sales to Pakistan. According to Miglani, in

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<sup>451</sup> “Pakistan to Buy Eight Submarines from China,” *DAWN.Com*, April 1, 2015, <https://www.dawn.com/news/1173159>.

<sup>452</sup> Franz-Stefan Gady, “Confirmed: Pakistan Will Buy Eight Chinese Subs,” accessed October 21, 2021, <https://thediplomat.com/2015/04/confirmed-pakistan-will-buy-eight-chinese-subs/>.

<sup>453</sup> Gady.

<sup>454</sup> Kardon, “Research & Debate—Pier Competitor: Testimony on China’s Global Ports,” 139–40.

<sup>455</sup> Kardon, 139–40.

<sup>456</sup> Wezeman, Kuimova, and Wezeman, “Trends in International Arms Transfers, 2020,” 2.

<sup>457</sup> Wezeman, Kuimova, and Wezeman, 6.

2014 Bangladesh commissioned two new frigates from China with another deal to receive its first submarines by 2019.<sup>458</sup> A couple years later in January 2016, three PLAN vessels—two guided-missile frigates and a supply ship—arrived in Chittagong port, marking the first time a Chinese navy had visited Bangladesh.<sup>459</sup> Correlation does not equal causation; however, it is worth noting that Bangladesh had previously never hosted a Chinese naval vessel and had firmly asserted that it had no plans to do so.<sup>460</sup>

Military exercises and training also play an important role in deepening trust and cooperation between China and Pakistan. According to Flotilla Commander Chinese Naval Force, Senior Captain Chi Qingtao, the PLAN and Pakistani navy are particularly close: “The navies of both China and Pakistan enjoy an all-weather relationship with joint maritime collaboration, including regular exchange visits of senior naval leadership and fleet units, joint construction of naval ships and submarines, PLA(N)’s regular participation in Aman series of exercises, and annual joint SOF exercises.”<sup>461</sup> Speaking at a press conference for Sea Guardians-2020, a joint military exercise with Pakistan, China’s Ministry of National Defense spokesman Ren Guoqi said, “The exercise is conducive to deepening security cooperation between the two militaries, consolidating and developing the China-Pakistan all-weather strategic cooperative partnership, and promoting the building of a maritime community with a shared future.”<sup>462</sup> On the Pakistan side, Vice Admiral Asif Khaliq said that the exercise “is a strong witness to the continuous development of relations between the two countries and the continuous deepening of

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<sup>458</sup> Sanjeev Miglani, “Indian Leader Heading to Bangladesh with China on His Mind,” *Reuters*, May 27, 2015, sec. Aerospace & Defense, <https://www.reuters.com/article/india-bangladesh-china-idUSL3N0YG2QG20150527>.

<sup>459</sup> Ananth Krishnan, “In a First, Chinese Navy Frigates Dock in Bangladesh,” *India Today*, accessed November 3, 2021, <https://www.indiatoday.in/world/story/in-a-first-chinese-navy-frigates-dock-in-bangladesh-306014-2016-01-28>.

<sup>460</sup> Miglani, “Indian Leader Heading to Bangladesh with China on His Mind.”

<sup>461</sup> Shazia Hasan, “Navies of Pakistan, China Begin Their Fourth Joint Exercise,” *DAWN.Com*, November 18, 2016, <http://www.dawn.com/news/1297067>.

<sup>462</sup> “China, Pakistan to Hold Joint Maritime Drill,” *China Daily*, November 28, 2019, <https://www.chinadaily.com.cn/a/201911/28/WS5ddfd7a3a310cf3e3557abde.html>.

maritime cooperation between the two navies.”<sup>463</sup> Sea Guardians-2020, conducted in early January of last year, was the sixth annual iteration of the bilateral joint naval exercise<sup>464</sup> The exercise, which kicked off at the Pakistan Navy Dock Yard in Pakistan, involved a significant PLAN presence, including a destroyer, frigate, supply ship, submarine rescue vessel, as well as helicopters and special operations soldiers.<sup>465</sup> Pakistan participated with frigates, fast attack craft, fixed-wing anti-submarine patrol aircraft, helicopters, and special operations soldiers.<sup>466</sup> These exercises should be viewed in the context of CPEC, according to Commodore Mirza Foad Amin Baig, Commander 18th Destroyer Squadron.<sup>467</sup> Speaking to the media at the fourth iteration of the bilateral joint military exercises, a little over a year after CPEC was unveiled, he said the drill was “aimed at enhancing security in the strategic region which included port areas and the sea where ships would sail out,” specifically referencing Gwadar Port.<sup>468</sup> While these joint exercises are advertised as promoting maritime security in the region around CPEC, they also hold additional benefits for China. As Albert writes, “Joint drills are significant, especially for China, as it gains experience in conducting operations off of the Pakistani coast in the Arabian Sea.” Thus, in addition to deepening Sino-Pakistani military ties, joint military exercises help normalize PLAN submarines’ presence in the Indian Ocean and Pakistani ports.

### **3. Influence in Gwadar Port from Economic Ties**

China’s economic relationship with Pakistan also provides China with influence in Pakistan. As Becker writes, “Beijing has a track record of using the economic tools at its disposal to advance its foreign policy objectives. Consequently, it is not unreasonable to

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<sup>463</sup> Zhaohui Dong, “China, Pakistan Kick off ‘Sea Guardians-2020’ Naval Drill in Karachi - China Military,” China Military Online, January 6, 2020, [http://eng.chinamil.com.cn/view/2020-01/06/content\\_9710755.htm](http://eng.chinamil.com.cn/view/2020-01/06/content_9710755.htm).

<sup>464</sup> Dong.

<sup>465</sup> Dong.

<sup>466</sup> Dong.

<sup>467</sup> Hasan, “Navies of Pakistan, China Begin Their Fourth Joint Exercise.”

<sup>468</sup> Hasan.



think that China might deploy those tools in such a way as to influence national and local leaders with authority over and access to ports.”<sup>469</sup> There are three economic tools China can leverage against Pakistan. Investment is the first. According to the 2018 China Military Power Report, China could leverage dependence on Chinese capital to achieve its interests.<sup>470</sup> Kardon agrees and adds trade as a second economic tool of influence.<sup>471</sup> He writes that port concessions leading to logistical support for naval operations “are more feasible in friendly countries where China accounts for a large proportion of their overall trade and investment.”<sup>472</sup> The third tool, related to the other two, is debt, which China could leverage in exchange for long-term port concessions.

**a. Financial Leverage: Investment**

As Pakistan’s Prime Minister Khan notes, China is Pakistan’s most significant FDI contributor and largest trading partner.<sup>473</sup> As Islamabad’s largest creditor, China can substantially influence Pakistan’s economy. This influence could be used as leverage by China to pursue its military interest in Pakistan. Becker writes:

One tool China may use to expand its influence in overseas port facilities is the provision of foreign direct investment, which Chinese SOE officials often tout as having the potential to dramatically reform a country’s future, just as China has done over the past four decades. This approach is likely to be most effective when directed at officials from countries where capital is scarce.<sup>474</sup>

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<sup>469</sup> Becker, “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain: Testimony before the House Committee on Transportation and Infrastructure and Subcommittee on Coast Guard and Maritime Transportation,” 4.

<sup>470</sup> “Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2018” (Department of Defense, May 16, 2018), <https://media.defense.gov/2018/Aug/16/2001955282/-1/-1/1/2018-CHINA-MILITARY-POWER-REPORT.PDF>.

<sup>471</sup> Kardon, “Chinese Military Power Projection and U.S. National Interests: Testimony before the U.S.-China Economic Security Review Commission,” 3.

<sup>472</sup> Kardon, 3.

<sup>473</sup> Imran Khan, “A Letter from Prime Minister of Pakistan: Pakistan and China, Iron Brothers and Strategic Partners – Today and Forever,” *Global Times*, June 30, 2021, <https://www.globaltimes.cn/page/202106/1227510.shtml>.

<sup>474</sup> Becker, “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain: Testimony before the House Committee on Transportation and Infrastructure and Subcommittee on Coast Guard and Maritime Transportation.”

Pakistan is one such country where this approach might be effective. Pakistan has struggled to attract other foreign investors. According to the World Bank data, Pakistan's net inflow of FDI in 2019 was 2.234 billion and has remained approximately 2.26 billion since 2016.<sup>475</sup> For comparison, in 2019, Malaysia's net inflow of FDI was approximately 9 billion, Vietnam's was approximately 16 billion, and Indonesia's was approximately 25 billion.<sup>476</sup> According to a United Nations Conference on Trade and Development report, China was Pakistan's single largest investor in 2019, mainly due to CPEC projects.<sup>477</sup> Elms, an Economics Officer at the embassy in Islamabad, writes that Pakistan "remains a low priority country for foreign investors."<sup>478</sup> He writes that despite the growth in Chinese FDI, which contributed more than 58 percent of Pakistan's total FDI in the 2018 fiscal year, "non-Chinese sources are limited."<sup>479</sup> "Despite a relatively open foreign investment regime," he writes, "Pakistan remains a challenging environment for foreign investors."<sup>480</sup> He attributes Pakistan's lower FDI, as compared to regional competitors, to several reasons: "An improving but unpredictable security situation, difficult business climate, lengthy dispute resolution processes, poor intellectual property rights (IPR) enforcement, and inconsistent taxation policies."<sup>481</sup> While these reasons have deterred many in the West, as a former president of the Karachi Chambers of Commerce, Qaiser Ahmed Shaikh put it, China has moved in to fill the void.<sup>482</sup>

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<sup>475</sup> "Foreign Direct Investment, Net Inflows (BoP, Current US\$) - Pakistan, Indonesia, Vietnam, Malaysia," The World Bank, accessed November 11, 2021, <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=PK-ID-VN-MY>.

<sup>476</sup> World Bank, "Foreign Direct Investment, Net Inflows (BoP, Current US\$) - Pakistan, Indonesia, Vietnam, Malaysia."

<sup>477</sup> "World Investment Report 2019: Special Economic Zones" (United Nations Conference on Trade and Development, 2019), 44, <https://doi.org/10.18356/8a8d05f9-en>.

<sup>478</sup> Christopher Elms, "2019 Investment Climate Statements: Pakistan" (Department of State), accessed November 11, 2021, <https://www.state.gov/reports/2019-investment-climate-statements/pakistan/>.

<sup>479</sup> Elms.

<sup>480</sup> "China Emerges as Top FDI Country in Pakistan," *The Nation*, October 19, 2020, <https://nation.com.pk/19-Oct-2020/china-emerges-as-top-fdi-country-in-pakistan>.

<sup>481</sup> Elms, "2019 Investment Climate Statements: Pakistan."

<sup>482</sup> S. Khan, "How Chinese Investments Are Capturing Pakistan's Economy," *DW.Com*, February 8, 2021, <https://www.dw.com/en/china-pakistan-investment-ties/a-58734281>.

China is also willing to invest in Pakistan's loss-making state-owned enterprises (SOEs). According to a February article in *Asia Times*, Chinese investors are positioned to invest in several loss-making SOEs.<sup>483</sup> According to Ishrat Husain, a government advisor, the Pakistani government plans to sell stakes in various SOEs, including Pakistan Railways (PR), Pakistan International Airlines (PIA), and Pakistan Steel Mills (PSM), and China has surfaced as one of only a few bidders.<sup>484</sup> The article notes that with SOE-related losses at \$9.4 billion—more than the country's annual defense allocation—China's capital is "thus warmly welcomed in government circles."<sup>485</sup> However, Shakil explains that these Chinese investments are a double-edged sword, "Chinese companies are taking over major businesses in Pakistan's export-led manufacturing sector, the profit-making heart of the nation's \$276 billion economy."<sup>486</sup> Though welcomed by Pakistan, China's willingness to invest in Pakistan's failing SOEs may be less than altruistic.

Being Pakistan's largest creditor also provides China significant influence. China is consistently Pakistan's top provider of FDI.<sup>487</sup> According to a July 2019 report published by the IMF, Chinese commercial and bilateral loans constituted over a quarter of Pakistan's total outstanding debt of approximately \$85.5 billion.<sup>488</sup> As Younus writes, by April 2021, Pakistan's external debt had risen to \$90.12 billion, 27.4 percent of that owed to China.<sup>489</sup> However, he notes, China has, to date, "refrained from directly influencing Pakistan's economic policies."<sup>490</sup> He writes, "As the ongoing IMF loan

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<sup>483</sup> Fm Shakil, "China's Pakistan Investments a Double-Edged Sword," *Asia Times*, February 2, 2021, <https://asiatimes.com/2021/02/chinas-pakistan-investments-a-double-edged-sword/>.

<sup>484</sup> Shakil.

<sup>485</sup> Shakil.

<sup>486</sup> Shakil.

<sup>487</sup> Nation, "China Emerges as Top FDI Country in Pakistan."

<sup>488</sup> "Pakistan: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; and Statement by the Executive Director for Pakistan" (International Monetary Fund, July 2019), 38, <https://www.imf.org/en/Publications/CR/Issues/2019/07/08/Pakistan-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-47092>.

<sup>489</sup> Uzair Younus, "Pakistan's Growing Problem with Its China Economic Corridor," United States Institute of Peace, May 26, 2021, <https://www.usip.org/publications/2021/05/pakistans-growing-problem-its-china-economic-corridor>.

<sup>490</sup> Younus.

program has indicated, the IMF, World Bank, and the Asian Development Bank (ADB) continue to be the key players when it comes to determining the fiscal policies adopted in Islamabad.”<sup>491</sup>

That is not to say there are not other, more subtle ways that China can exert influence. Fluctuations in China’s level of investment, for instance, can have a significant impact on Pakistan’s economy. For example, the State Bank of Pakistan reported a 27 percent drop during the first seven months of this fiscal year compared to the same period last fiscal year, and one of the main reasons for the drop was a decline in net FDI from China.<sup>492</sup> As Small writes, Pakistan has been “negotiating with its back against the wall: it needed new sources of investment, and China was perhaps the only suitor willing to bring significant resources to the table.”<sup>493</sup> Pakistan’s dependence on Chinese investment provides China, as Becker puts it, “significant leverage in negotiating the terms of investments.”<sup>494</sup> This implies, according to Garlick, “that China will have a near-monopoly on decision-making in CPEC.”<sup>495</sup> Thus China may have significant influence in the planning and execution of CPEC projects such as Gwadar Port.

***b. Financial Leverage: Debt***

Another tool of financial leverage, and one related to investment, is the debt Pakistan owes to China. According to Runde, Pakistan’s Status Report for July 2017 through June 2018 indicates that China held 50 percent of Pakistan’s commercial debt.<sup>496</sup> Because the loan data provided by the Pakistani government is not entirely transparent, especially concerning China, this percentage could be even higher than the report suggests,

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<sup>491</sup> Younus.

<sup>492</sup> Shahid Iqbal, “27pc Drop in Foreign Direct Investment,” *DAWN.Com*, February 23, 2021, <https://www.dawn.com/news/1608850>.

<sup>493</sup> Small, “Returning to the Shadows: China, Pakistan, and the Fate of CPEC,” 29.

<sup>494</sup> Becker, “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain: Testimony before the House Committee on Transportation and Infrastructure and Subcommittee on Coast Guard and Maritime Transportation.”

<sup>495</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 526.

<sup>496</sup> Daniel Runde, “An Economic Crisis in Pakistan Again: What’s Different This Time?,” accessed November 9, 2021, <https://www.csis.org/analysis/economic-crisis-pakistan-again-whats-different-time>.

Runde notes.<sup>497</sup> Thus, as he writes, “It is difficult to obtain a full sense of the degree of Pakistan’s indebtedness to China.”<sup>498</sup>

The fact that China is the single largest holder of Pakistani debt is not in and of itself an indicator of China’s ill-intentions or a means of leverage. Debt, after all, is not inherently a bad thing. Hakura writes, “Public debt is one way to raise money for development. There are other ways to mobilize financing, such as by raising domestic revenue, improving the efficiency of spending, reducing corruption, and improving the business environment. But these may take time to materialize and may not be enough.”<sup>499</sup> This is perhaps especially pertinent to Pakistan’s business environment and balance-of-payments deficit.

Moreover, public debt is necessary to pay for Pakistan’s much-needed infrastructure. As Hurley et al. write, “If infrastructure is a critical engine of growth in developing economies, then debt financing is the fuel for that engine. Public borrowing to support productive investment is central to the development narratives of today’s wealthy countries and it continues to drive growth in emerging economies.”<sup>500</sup> The need for infrastructure to fuel growth is widespread across Asia. According to an ADB study, \$26 trillion in infrastructure investment is required in Asia and the Pacific alone over 2016 to 2030 to maintain growth, eliminate poverty, and address climate change.<sup>501</sup> Therefore, the BRI is addressing a pressing need in countries like Pakistan.

Furthermore, Hurley et al. find that “BRI is unlikely to cause a systemic debt problem in the regions of the initiative’s focus. While the aggregate numbers look large, when assessed in the context of the size of the economies that are likely to benefit from

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<sup>497</sup> Runde.

<sup>498</sup> Runde.

<sup>499</sup> Dalia Hakura, “Back to Basics: What Is Debt Sustainability?,” Fall 2020, <https://www.imf.org/external/pubs/ft/fandd/2020/09/what-is-debt-sustainability-basics.htm>.

<sup>500</sup> John Hurley, Scott Morris, and Gailyn Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective” (Washington, D.C: Center for Global Development, June 28, 2019), 3, <https://systems.enpress-publisher.com/index.php/jipd/article/view/1123>.

<sup>501</sup> Asian Development Bank, “Asian Development Bank Annual Report 2017: Sustainable Infrastructure for Future Needs,” ADB Annual Reports, 0 ed., ADB Annual Reports (Manila, Philippines: Asian Development Bank, April 2018), 10, <https://doi.org/10.22617/FLS189307>.

BRI investments, the amounts are consistent with current levels of infrastructure investment.”<sup>502</sup> They continue, “These levels are modest in comparison to the ADB’s estimated infrastructure financing ‘needs’ in Asia, which are projected to be 5.1 percent of the region’s GDP.”<sup>503</sup> It is also important to note that there are different types of public debt, both internal and external. In terms of debt burden, external debt is the most relevant to analyze. Hayat explains that external debt, the debt owed to multilateral lenders such as the IMF, World Bank, Asian Development Bank, and bilateral lenders, “represents a greater burden because it has to be paid in foreign exchange and the lenders are powerful entities and countries.”<sup>504</sup> Thus, we should examine not just the total size of Pakistan’s public debt. Rather, we should assess whether Pakistan’s external debt is sustainable, and whether China is either hurting or helping the situation.

#### (1) Debt Sustainability

One such factor to consider when assessing the perniciousness of external debt is whether the debtor country is imposing unsustainable debt. Hurely et al. write, “There are some countries, most of whom are small and relatively poor, that face a significantly increased risk of a sovereign debt default if planned BRI projects are implemented in an expeditious manner and financed with sovereign loans or guarantees.”<sup>505</sup> They write that what is important is whether enough economic growth and revenue is accompanying the borrowing to service the debt.<sup>506</sup> If not, they write, “unsustainable debt can lead to debt distress—where a country is unable to fulfill its financial obligations and debt restructuring is required.” This vulnerable position creates opportunities for exploitation by debtor countries. Thus, an indicator of China’s intentions is not the total amount of debt Pakistan owes China but rather whether the China-owned debt Pakistan is accruing is sustainable.

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<sup>502</sup> Hurley, Morris, and Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” 5.

<sup>503</sup> Hurley, Morris, and Portelance, 5.

<sup>504</sup> Usman Hayat, “Is Pakistan’s Public Debt Sustainable?,” *DAWN.Com*, November 3, 2021, <https://www.dawn.com/news/1652968>.

<sup>505</sup> Hurley, Morris, and Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” 5.

<sup>506</sup> Hurley, Morris, and Portelance, 3.

So, what is sustainable debt? The IMF defines debt sustainability as follows: “In general terms, public debt can be regarded as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level.”<sup>507</sup> However, as Hayat notes, this definition relies upon unclear phrases such as “politically feasible,” “acceptably low,” and “satisfactory,” which Hayat points out, may lead different analysts to reach different conclusions.<sup>508</sup> Hakura, therefore, provides another definition, “A country’s public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default” and “whether policies needed to stabilize debt are feasible and consistent with maintaining growth potential or development progress.”<sup>509</sup> This is a more helpful definition because it focuses on whether a government can service its debts without defaulting or requiring exceptional financial assistance.

With this definition in hand, we can measure Pakistan’s debt distress. According to Hurley et al., one suitable method is to evaluate a country’s debt compared to the size of its economy measured in terms of the gross domestic product (GDP).<sup>510</sup> The authors use a debt-threshold of rising debt-to-GDP of 50–60 percent to assess which countries may be suffering from debt distress due to BRI-related financing.<sup>511</sup> Using that threshold, they find that Pakistan’s debt is particularly concerning.<sup>512</sup> According to a 2019 IMF report, “Pakistan’s government and government-guaranteed debt has been on an increasing path since 2017.”<sup>513</sup> According to a World Bank report, in 2020, Pakistan’s debt-to-GDP ratio

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<sup>507</sup> “Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries,” *Policy Papers* 2013, no. 40 (May 6, 2013): 4, <https://doi.org/10.5089/9781498341844.007>.

<sup>508</sup> Hayat, “Is Pakistan’s Public Debt Sustainable?”

<sup>509</sup> Hakura, “Back to Basics: What Is Debt Sustainability?”

<sup>510</sup> Hurley, Morris, and Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” 13.

<sup>511</sup> Hurley, Morris, and Portelance, 11.

<sup>512</sup> Hurley, Morris, and Portelance, 13.

<sup>513</sup> International Monetary Fund, “Pakistan,” 42.

surpassed 80 percent.<sup>514</sup> Shakil writes that Pakistan’s debt-to-GDP ratio was 109% of GDP as of the end of 2020, a number that could double to 220% by the end of 2023.<sup>515</sup> Based on the metric of debt-to-GDP, Pakistan is clearly in debt distress.

Another way to assess Pakistan’s ability to pay its debts is to analyze its interest-to-revenue ratio. According to a 2020 public finance data set, among the countries with a debt-to-GDP ratio above 80 percent, Pakistan’s interest-to-revenue ratio ranks second only to Sri Lanka.<sup>516</sup> However, Hayat notes, “If Pakistan’s interest-to-revenue ratio from the federal budget is calculated using the revenue net of the provincial share, it comes out at just about 80pc, even greater than that of Sri Lanka.”<sup>517</sup> To put this in perspective, according to Pakistan’s federal budget 2020–21, interest on loans was the single largest expense, even larger than “Defence [sic] Affairs & Services” and the entirety of “Development” expenditures.<sup>518</sup> It is difficult to fuel sustainable economic growth and development when interest payments bind a large percentage of the federal budget. Based on both the debt-to-GDP ratio and the interest-to-revenue ratio, Pakistan faces a distressing debt situation.

Struggling to balance its finances, Pakistan turned to the IMF for a bailout in October 2018 to avoid a default.<sup>519</sup> By May 2019, Pakistan had signed a bailout agreement with the IMF requiring it to submit to strict fiscal discipline for 39 months to receive \$6

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<sup>514</sup> “World Bank Debt Report 2021” (World Bank, January 2021), 12, <https://openknowledge.worldbank.org/bitstream/handle/10986/35057/Debt-Report-2021-First-Edition.pdf?sequence=1&isAllowed=y>.

<sup>515</sup> Fm Shakil, “Pakistan Beggars China for Power Debt Forgiveness,” *Asia Times*, May 30, 2021, <https://asiatimes.com/2021/05/pakistan-begs-china-for-power-debt-forgiveness/>.

<sup>516</sup> “Sri Lanka Pays the Largest Proportion of Its Revenue as Interest Payment,” Public Finance, September 7, 2019, <https://publicfinance.lk/en/topics/sri-lanka-pays-the-largest-proportion-of-its-revenue-as-interest-payment-1630990058>.

<sup>517</sup> Hayat, “Is Pakistan’s Public Debt Sustainable?”

<sup>518</sup> “Federal Budget 2020-21 Budget in Brief,” June 12, 2020, [https://www.finance.gov.pk/budget/Budget\\_in\\_Brief\\_2020\\_21\\_English.pdf](https://www.finance.gov.pk/budget/Budget_in_Brief_2020_21_English.pdf).

<sup>519</sup> Erica Downs, “China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability” (SIPA Center on Global Energy Policy, October 2019), 34, <https://www.energypolicy.columbia.edu/research/report/china-pakistan-economic-corridor-power-projects-insights-environmental-and-debt-sustainability>.



billion in support.<sup>520</sup> However, some question whether the IMF package is the solution. According to an article in *Dawn*, Kaiser Bengali, a former government economic adviser, views the IMF package as only providing temporary relief and room to address the balance-of-payments deficit.<sup>521</sup> He points to the fact that the loan has been insufficient, which is why Pakistan has had to borrow “short-term and expensive loans.”<sup>522</sup> Before going to the IMF, Prime Minister Khan initially secured more than \$9 billion in bilateral loans from the United Arab Emirates, China, and Saudi Arabia. According to the Pakistan Economic Survey 2018–2019, Pakistan received \$1 billion from the UAE, \$2.2 billion from China, and \$6 billion—\$3 billion in loan and \$3 billion in deferred oil import payments—from Saudi Arabia.<sup>523</sup> However, Saudi Arabia later pressed Pakistan to repay its loan, a result of strained relations, Shahzad writes.<sup>524</sup> In December 2020, Pakistan returned \$1 billion, the second such repayment towards the \$3 billion loan.<sup>525</sup> With only \$13.3 billion in central bank foreign reserves, Shahzad writes that the next installment could present Pakistan with a balance of payments issue.<sup>526</sup>

Fortunately for Pakistan, as a foreign ministry official told Reuters, China is coming to the rescue.<sup>527</sup> According to the article, a finance ministry official confirmed that Pakistan’s central bank discussed a debt swap option with Chinese commercial banks.<sup>528</sup> Of course, while this would temporarily alleviate Pakistan’s predicament, it would only

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<sup>520</sup> Adnan Aamir, “Pakistan Slashes Annual Funding for Belt and Road Projects,” *Nikkei Asia*, June 17, 2019, <https://asia.nikkei.com/Spotlight/Belt-and-Road/Pakistan-slashes-annual-funding-for-Belt-and-Road-projects>.

<sup>521</sup> “IMF Bailout Package — Rescue or Trap for Pakistan?,” *DAWN.Com*, May 16, 2019, <https://www.dawn.com/news/1482666>.

<sup>522</sup> DAWN.com, “IMF Bailout Package — Rescue or Trap for Pakistan?.”

<sup>523</sup> Ministry of Finance Government of Pakistan, “Pakistan Economic Survey 2018-2019,” 1, accessed November 11, 2021, [http://www.finance.gov.pk/survey\\_1819.html](http://www.finance.gov.pk/survey_1819.html).

<sup>524</sup> Asif Shahzad, “Pakistan Returns \$1 Billion of Saudi Arabia’s Soft Loan, Officials Say,” *Reuters*, December 16, 2020, sec. Middle East & Africa, <https://www.reuters.com/article/pakistan-china-saudi-arabia-int-idUSKBN28Q2A5>.

<sup>525</sup> Shahzad.

<sup>526</sup> Shahzad.

<sup>527</sup> Shahzad.

<sup>528</sup> Shahzad.

shift more of Pakistan’s debt to China. China could theoretically put Pakistan in the same position that Saudi Arabia has. Furthermore, China’s bailout might not actually help Pakistan. As Runde writes, bailouts are insufficient because they do not “get at the root issue that Pakistan faces—its loose macroeconomic, fiscal, and monetary policies. Pakistan needs to get its house in order and remedy many of its domestic economic issues.”<sup>529</sup> He points that “18 out of Pakistan’s 21 IMF programs over the last 60 years have not been completed despite obtaining over \$30 billion in financial support across those programs.”<sup>530</sup> It seems clear that, although the IMF bailout was necessary for Pakistan to avoid default, it is not the solution to Pakistan’s fiscal dilemma. Neither are bilateral bailouts, which can provide temporary relief but also increase Pakistan’s external debt, debt which, as the Saudi example shows, can create exploitable vulnerabilities.

*c. Financial Leverage: Trade*

To address its balance-of-payments issues, Pakistan must address its trade deficit. As the *Asia Times* article reports, in May, the Pakistan Bureau of Statistics revealed the country’s trade deficit had risen to \$19.6 billion, a rise in over \$2 billion from the previous year.<sup>531</sup> Pakistan’s trade deficit is an important factor for Pakistan’s debt sustainability. According to an IMF report on debt vulnerability, a country’s ability to service its external debt is a function of, among other things, the value of its current inflows, which are primarily related to its exports.<sup>532</sup> As Dollar writes, foreign debt “has to be serviced via exports, and there are clear limits to how much debt poor countries can take on.”<sup>533</sup> Therefore, by contributing to Pakistan’s increasing fiscal deficit, China adds to Pakistan’s debt vulnerability. Pakistan’s reliance on Chinese trade makes a China-Pakistan trade deficit even more significant. Heginbotham writes, “Asymmetric dependence on trade is

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<sup>529</sup> Runde, “An Economic Crisis in Pakistan Again.”

<sup>530</sup> Runde.

<sup>531</sup> Shakil, “Pakistan Begs China for Power Debt Forgiveness.”

<sup>532</sup> “Debt and Reserve Related Indicators of External Vulnerability,” 8, accessed November 11, 2021, <https://www.imf.org/external/np/pdr/debtres/>.

<sup>533</sup> David Dollar, “Seven Years into China’s Belt and Road,” *Brookings* (blog), October 1, 2020, <https://www.brookings.edu/blog/order-from-chaos/2020/10/01/seven-years-into-chinas-belt-and-road/>.

often taken as a surrogate for influence.”<sup>534</sup> If this is the case, then China and Pakistan’s asymmetric trade relationship provides China influence over Pakistan. China has been Pakistan’s largest trading partner since 2015.<sup>535</sup> However, this trade relationship has been one-sided.<sup>536</sup> In 2015, the trade deficit was \$3.398 billion.<sup>537</sup> Since then, this deficit has grown larger. In 2018, China’s exports to Pakistan increased to \$11.458 billion, an increase of \$1.381 billion from the previous year, while exports to China increased to \$1.744 billion, an increase of only \$120 million, amounting to a trade gap of \$9.7 billion, or 30 percent of Pakistan’s overall trade deficit.<sup>538</sup> This trend has continued despite China and Pakistan concluding free trade agreement (FTA) negotiations in 2019.<sup>539</sup> According to Mahmood, the FTA has mainly increased China’s imports while slightly increasing Pakistan’s exports.<sup>540</sup> The following year, Pakistan’s Chinese imports rose to \$12.06 billion while Pakistan’s exports to China remained at \$1.73 billion.<sup>541</sup>

CPEC, which was supposed to boost trade between the two countries, seems only to have widened the gap.<sup>542</sup> An article in *Dawn* written in 2016 highlights an IMF report on the effects of CPEC imports on Pakistan’s trade deficit. According to the report, CPEC related imports “will likely offset a significant share” of the external funding inflows, “such

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<sup>534</sup> Joshua Eisenman and Eric Heginbotham, *China Steps out: Beijing’s Major Power Engagement with the Developing World* (New York, NY: Routledge, 2018), 59.

<sup>535</sup> Karim Ali, “China’s Outward FDI Ranks No.1 Globally for the First Time--China Economic Net,” *China Economic Net*, October 15, 2021, [http://en.ce.cn/Insight/202109/29/t20210929\\_36959996.shtml](http://en.ce.cn/Insight/202109/29/t20210929_36959996.shtml).

<sup>536</sup> Shahid Iqbal, “Trade Deficit with China, India up Sharply,” *DAWN.Com*, May 10, 2015, <http://www.dawn.com/news/1181070>.

<sup>537</sup> Iqbal.

<sup>538</sup> Shahid Iqbal, “Trade Gap with China Rises to \$9.7bn in FY18,” *DAWN.Com*, July 29, 2018, <https://www.dawn.com/news/1423551>.

<sup>539</sup> Javed Mahmood, “Big Friends – Bigger Gap: Pakistan Sustains \$10.33 Billion Trade Deficit With China in FY20,” *The Truth International*, May 31, 2021, <https://thetruthinternational.com/international/big-friends-bigger-gap-pakistan-sustains-10-33-billion-trade-deficit-with-china-in-fy20/>.

<sup>540</sup> Mahmood.

<sup>541</sup> Mahmood.

<sup>542</sup> “China-Pak Corridor Set to Boost Trade Business,” *China Daily*, June 15, 2015, [https://www.chinadailyasia.com/business/2015-06/15/content\\_15277250.html](https://www.chinadailyasia.com/business/2015-06/15/content_15277250.html).

that the current account deficit would widen.”<sup>543</sup> According to Garlick, the evidence suggests that Pakistan has “limited potential” to become a major trade partner for China; therefore, “transforming Pakistan into one is not likely to be China’s main goal in promoting CPEC cooperation.”<sup>544</sup> According to Schwemlein, China’s trade behavior toward Pakistan will indicate China’s intentions for BRI in Pakistan.<sup>545</sup> He writes, “If [China] wants Pakistan to succeed, it will purchase more Pakistani goods, reduce the trade imbalance, and work with the government and international institutions like the IMF to promote meaningful reform. If its intention is somehow to leverage Pakistan to acquire assets or to build a new military platform, it could continue walking Pakistan right into a debt trap.”<sup>546</sup>

#### 4. Debt-Trap?

Many foreign observers believe that China endeavors to burden countries with unsustainable debt to gain control of strategic infrastructure when countries are unable to service their debts. Some foreign policy experts see military expansion as part of the Belt and Road initiative.<sup>547</sup> U.S. policymakers too fear that Beijing will leverage its foreign infrastructure investments, specifically port infrastructure, for strategic gains.<sup>548</sup> India’s government shares this concern.<sup>549</sup>

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<sup>543</sup> Khurram Husain, “IMF Warns of Looming CPEC Bill,” *DAWN.Com*, October 17, 2016, <http://www.dawn.com/news/1290523>.

<sup>544</sup> Garlick, “Deconstructing the China–Pakistan Economic Corridor,” 531.

<sup>545</sup> James Schwemlein, “Pakistan’s Economic Turmoil Threatens China’s Ambitions,” *Foreign Policy*, August 16, 2018, <https://foreignpolicy.com/2018/08/16/pakistans-economic-turmoil-threatens-chinas-ambitions-cpec/>.

<sup>546</sup> Schwemlein.

<sup>547</sup> Becker, “China’s Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain: Testimony before the House Committee on Transportation and Infrastructure and Subcommittee on Coast Guard and Maritime Transportation.”

<sup>548</sup> Patrick Kelley, “Don’t Let China Snag Another Foreign Port, Senators Warn,” *Roll Call*, August 7, 2018, <https://www.rollcall.com/2018/08/07/dont-let-china-snag-another-foreign-port-senators-warn-2/>.

<sup>549</sup> Dipanjan Roy Chaudhury and Anushree Singh, “Indian Foreign Secretary Harsh V Shringla Cautions against Debt Trap Diplomacy,” *The Economic Times*, November 2, 2020, <https://economictimes.indiatimes.com/news/politics-and-nation/indian-foreign-secretary-harsh-v-shringla-cautions-against-debt-trap-diplomacy/articleshow/79003038.cms?from=mdr>.

The oft-cited archetypal example supporting this claim is Sri Lanka's Hambantota port. According to Hillman, plans to construct a port at Hambantota go back to at least 2003, when a Canadian engineering firm conducted a feasibility study.<sup>550</sup> Like Gwadar Port, the Hambantota Port project was deemed not economically viable.<sup>551</sup> According to Abi-Habib, when India was approached as a potential financial partner, it turned Sri Lanka down.<sup>552</sup> Nevertheless, the project was brought to life under former president Mahinda Rajapaksa, along with many other projects in Hambantota, Rajapaksa's political base.<sup>553</sup> With political backing from Rajapaksa's government and Chinese funding, these projects proceeded, and Sri Lanka's debt to China grew.<sup>554</sup> Rajapaksa, determined to expand the port, continued to request more money, which China granted, Abi-Habib writes.<sup>555</sup> However, these new loans came with new terms, and to secure funding, Rajapaksa was forced to accept higher interest rates.<sup>556</sup> According to Abi-Habib, by the time Rajapaksa left office in 2015 and the new administration arrived, Sri Lanka's debts had ballooned.<sup>557</sup>

In April 2016, Sri Lanka's prime minister Ranil Wickremesinghe told reporters during a visit to Beijing that discussions had taken place with Chinese companies and the Chinese government about turning some infrastructure projects into public-private partnerships, which would swap part of Sri Lanka's debt for Chinese-held equity.<sup>558</sup> According to Abi-Habib, the Sri Lankan government was given little choice; writing down

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<sup>550</sup> Jonathan E Hillman, "Game of Loans: How China Bought Hambantota" (Center for Strategic and International Studies (CSIS), March 2018), <https://www.csis.org/analysis/game-loans-how-china-bought-hambantota>.

<sup>551</sup> Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *The New York Times*, June 25, 2018, sec. World, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

<sup>552</sup> Abi-Habib.

<sup>553</sup> Downs, "China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability," 35.

<sup>554</sup> Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

<sup>555</sup> Abi-Habib.

<sup>556</sup> Abi-Habib.

<sup>557</sup> Abi-Habib.

<sup>558</sup> Downs, "China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability," 35.

the debt was not an option.<sup>559</sup> The final agreement, signed in July of 2017, presented Sri Lanka with only one choice: to decide which Chinese state-owned company would take control of the port, China Harbor Engineering Company or China Merchants Port Holdings (CMPH).<sup>560</sup> Sri Lanka chose CMPH, granting a 99-year lease and making the Chinese company a majority shareholder in a joint venture with Sri Lanka Ports Authority.<sup>561</sup> Many analysts fear that Sri Lanka's debt distress might provide China the leverage to gain military access to Hambantota by providing debt relief. Sri Lankan administration has sought to ensure Chinese submarines never again visit its ports.<sup>562</sup> However, this outcome is dependent upon the government in office in Colombo. And, as Sri Lanka's state minister for national policies and economic affairs, Mr. de Silva put it, "Governments can change."<sup>563</sup>

Sri Lanka's Hambantota port is just one example of China leveraging debt to gain favorable port concessions; however, it is salient because Hambantota and Gwadar's situation bear several striking similarities. First, Hambantota Port shares some of the same strategic qualities as Gwadar. As Arnold and Jones write, Sri Lanka's ports are some of the deepest in the world.<sup>564</sup> Also, like Gwadar, Sri Lanka has a strategic geographic location. As Abi-Habib writes, control of Hambantota "gave China control of territory just a few hundred miles off the shores of a rival, India, and a strategic foothold along a critical commercial and military waterway."<sup>565</sup>

Second, Hambantota and Gwadar both lack hinterland connectivity. According to the original feasibility study done by the Canadian engineering firm, Hambantota lacked

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<sup>559</sup> Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

<sup>560</sup> Abi-Habib.

<sup>561</sup> Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China," *The New York Times*, December 12, 2017, <https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html>.

<sup>562</sup> Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

<sup>563</sup> Abi-Habib.

<sup>564</sup> Tom Arnold and Marc Jones, "Analysis: Debt-Hobbled Sri Lanka Risks Running out of Options," *Reuters*, August 3, 2021, <https://www.reuters.com/world/china/debt-hobbled-sri-lanka-risks-running-out-options-2021-08-03/>.

<sup>565</sup> Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

connectivity with the rest of the country.<sup>566</sup> And though China is financing and building transportation networks to remedy this, as Hillman and Funaiole note, it remains “relatively isolated from Sri Lanka’s more developed areas.”<sup>567</sup>

Third, like Gwadar Port, Hambantota has struggled to attract commercial activity. As Abi-Habib writes, over the years, Hambantota has “distinguished itself mostly by failing, as predicted.”<sup>568</sup> She points out, “With tens of thousands of ships passing by along one of the world’s busiest shipping lanes, the port drew only 34 ships in 2012.”<sup>569</sup>

Fourth, facing distressing economic situations, Gwadar and Sri Lanka rely on bilateral loans from China to avoid a sovereign default. Like Pakistan, Sri Lanka has been hesitant to turn to the IMF, which would mean spending cuts, and so it remains dependent on bilateral loans from generous countries, like China, seeking to gain influence in Sri Lanka. According to Mushtaq Sri Lanka has continued to take on more Chinese debt, turning to China twice in the span of two months last year for a total of \$580 million, despite already having to pay China millions each year to meet its debt obligations.<sup>570</sup>

Finally, Sri Lanka and Pakistan are both deeply tied to China by foreign investment, trade, and arms sales. In 2016, 35 percent of Sri Lanka’s total FDI came from China, compared to only 7 percent from India.<sup>571</sup> The same year, China surpassed India as Sri Lanka’s largest source of imports.<sup>572</sup> Like in Pakistan, a large influx of Chinese imports has expanded a growing trade deficit between the two countries.<sup>573</sup> Finally, according to

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<sup>566</sup> Jonathan Hillman, “The Secret History of Hambantota,” *Reconnecting Asia*, August 26, 2021, <https://reconasia.csis.org/the-secret-history-of-hambantota/>.

<sup>567</sup> Funaiole and Hillman, “China’s Maritime Silk Road.”

<sup>568</sup> Abi-Habib, “How China Got Sri Lanka to Cough Up a Port.”

<sup>569</sup> Abi-Habib.

<sup>570</sup> Munza Mushtaq, “Sri Lanka Piles on More Chinese Loans amid Virus and Debt Crisis,” *Nikkei Asia*, May 15, 2020, <https://asia.nikkei.com/Politics/International-relations/Sri-Lanka-piles-on-more-Chinese-loans-amid-virus-and-debt-crisis>.

<sup>571</sup> Rajiv Bhatia et al., “Chinese Investments in Sri Lanka,” Gateway House, December 1, 2016, <https://www.gatewayhouse.in/chinese-investments-sri-lanka-2/>.

<sup>572</sup> Moramudali Umesh, “Against the Tide: The Growth of China-Sri Lanka Trade,” *The Diplomat*, August 1, 2019, <https://thediplomat.com/2019/08/against-the-tide-the-growth-of-china-sri-lanka-trade/>.

<sup>573</sup> Umesh.

Roy-Chaudhury, China has been Sri Lanka's largest arms supplier since the 1950s, providing small arms, ammunition, landmines, naval vessels, and aircraft.<sup>574</sup> In 2007, then-President Mahinda Rajapaksa's signed a \$37.6 million deal to purchase, among other military hardware, Chinese fighter jets, anti-aircraft guns, air surveillance radar, and armored personnel carriers.<sup>575</sup>

Despite the striking similarities to Pakistan, is the Sri Lanka case a red herring? Downs notes that proponents of the debt-trap diplomacy narrative focus on this single example, despite China's history of waiving or restructuring loans without seizing assets.<sup>576</sup>

What then can we learn from China's debt negotiations with Pakistan? As is typical of China's debt renegotiations with other countries, Beijing's negotiations with Pakistan have been ad-hoc. In 2015, China converted a \$230 million loan for Gwadar airport into a grant and a \$140 million loan for the Eastbay Expressway into an interest-free loan.<sup>577</sup> More recently, however, Beijing has been less gracious. According to an article by Shakil in the *Asia Times*, over \$31 billion in liabilities are due for energy projects funded by China under CPEC.<sup>578</sup> However, Shakil points out that many of the new power plants are not actually producing power due to an underdeveloped national grid and overcapacity.<sup>579</sup> Nevertheless, he notes that the money is owed regardless due to the conditionalities of contracts made when Pakistan faced acute power shortages.<sup>580</sup> With this context, Beijing's refusal to Islamabad's request to restructure \$3 billion in liabilities, which would save the

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<sup>574</sup> Shantanu Roy-Chaudhury, "India-China-Sri Lanka Triangle: The Defense Dimension," accessed December 29, 2021, <https://thediplomat.com/2019/07/india-china-sri-lanka-triangle-the-defense-dimension/>.

<sup>575</sup> Roy-Chaudhury.

<sup>576</sup> Downs, "China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability," 35.

<sup>577</sup> Mehtab Haider, "China Converts \$230m Loan for Gwadar Airport into Grant," *Geo News*, September 23, 2015, <https://www.geo.tv/latest/6270-china-converts-230m-loan-for-gwadar-airport-into-grant>.

<sup>578</sup> Shakil, "Pakistan Begs China for Power Debt Forgiveness."

<sup>579</sup> Shakil.

<sup>580</sup> Shakil.



government \$5.2 billion on electricity costs over the next 10–12 years, according to the *Asia Times*, is questionable.<sup>581</sup>

A thorough analysis of the reasons for the disparate outcomes in debt renegotiations among countries in debt to China is beyond the scope of this thesis; however, Kratz et al. offer a few interesting conclusions. First, they write that debt write-offs are usually unilateral, “often conceded by Beijing without a formal renegotiation process,” and are “probably used to signal support to the recipient countries, and improve bilateral relations.”<sup>582</sup> Second, they point out, “Debt renegotiations and distress among borrowing countries are common. The sheer volume of debt renegotiations points to legitimate concerns about the sustainability of China’s outbound lending.”<sup>583</sup> Thus, China’s recent unwillingness to renegotiate Pakistan’s debt may be at least partially due to growing concerns in China about its lending practices in countries unable to provide returns on investment. Finally, Kratz et al. write that one of the most important factors that appear to influence China’s renegotiation outcomes is the availability of alternative sources of financing.<sup>584</sup> Considering Pakistan’s challenging foreign investment environment, this factor is especially pertinent. Based on the similarities between Sri Lanka’s Hambantota Port and Pakistan Gwadar’s Port, China’s debt renegotiation track record in Pakistan thus far, and the applicability of Kratz et al.’s conclusions about Beijing’s debt practices, it is reasonable to infer that Islamabad should not count on China’s benevolence in the future.

It is one thing to say that Islamabad cannot count on China’s benevolence, it is another to say that Gwadar could become the next debt trap. As analysts like Becker et al.

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<sup>581</sup> Shakil.

<sup>582</sup> Agatha Kratz, Allen Feng, and Logan Wright, “New Data on the ‘Debt Trap’ Question,” Rhodium Group, April 29, 2019, <https://rhg.com/research/new-data-on-the-debt-trap-question/>.

<sup>583</sup> Kratz, Feng, and Wright.

<sup>584</sup> Kratz, Feng, and Wright.

suggest, will China use its economic leverage to negotiate base agreements?<sup>585</sup> Not all foreign observers think so. Downs provides several justifications.<sup>586</sup> Firstly, she writes:

An attempt by China to intentionally weaken Pakistan’s economy would risk undermining the broader China-Pakistan relationship. Leaders from both countries speak of the bilateral relationship in glowing terms...if Pakistan’s political elites and population were to perceive China as intentionally seeking to harm Pakistan’s economy, this perception would likely undercut public support for a strong relationship with China and make the Pakistani government less responsive to Chinese interests.<sup>587</sup>

Second, she argues, “Saddling Islamabad with an unsustainable debt burden runs counter to Beijing’s interest in a more prosperous and stable Pakistan.”<sup>588</sup> Downs explains that a stable and flourishing Pakistan is better able to address one of Beijing’s growing concerns in the region, a growing militancy and extremism in South Asia, and enables Pakistan to better serve as a counterweight to India.<sup>589</sup>

Downs is also skeptical that China would need to resort to debt-trap-diplomacy to achieve greater access to Pakistani ports since “military relations are the core of the bilateral relationship.”<sup>590</sup> White agrees, he writes, “In practice the PLA already has deep and mutually-beneficial military ties with Pakistan which presumably include fulsome access to the naval shipyards in Karachi.”<sup>591</sup> Not to mention, as White points out, “Access arrangements that are grounded in economic coercion are unlikely to be politically stable or strategically reliable.”<sup>592</sup>

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<sup>585</sup> Becker et al., “China’s Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road,” 107–8.

<sup>586</sup> Downs, “China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability,” 38.

<sup>587</sup> Downs, 38.

<sup>588</sup> Downs, 38.

<sup>589</sup> Downs, 38.

<sup>590</sup> Downs, 38.

<sup>591</sup> Joshua T White, “China’s Indian Ocean Ambitions: Investment, Influence, and Military Advantage,” *Global China*, June 2020, 13.

<sup>592</sup> White, 12.

Furthermore, Downs points to China’s support—as the largest contributor—for the IMF’s latest bailout program, which indicates that Beijing does not intend to add to Pakistan’s debt.<sup>593</sup> IMF authorities have received firm commitments from key bilateral partners, such as China, Saudi Arabia, and the UAE, “to ensure that the new financing will be consistent with the program debt sustainability objectives by ensuring a manageable external debt servicing profile beyond the end of the IMF-supported program.”<sup>594</sup> Finally, Downs writes that it would only tarnish BRI’s image if Pakistan fell into a debt crisis because of CPEC projects.<sup>595</sup>

While analysts disagree whether the debt-trap narrative is valid or not, some think that fixating on the debt-trap diplomacy narrative misses the broader picture.<sup>596</sup> Zhang, from The Jamestown Foundation’s *China Brief*, believes that the implications of the increasing penetration and entrenchment of SOEs in the global economy are more profound.<sup>597</sup> He explains that the SOEs’ “access to deep, patient pools of state-backed capital gives PRC central SOEs the ability to build ties with other countries over long time periods, and through projects that other actors might find unprofitable. This sustained engagement allows them to shape the perceptions and incentives of local decision makers in powerful ways that go beyond mere ‘debt traps’.”<sup>598</sup> Zhang uses the illustration of Hambantota Port, although he could have just as easily been speaking about Pakistan’s Gwadar Port:

Establishing Hambantota’s place in the global maritime economy will require an enormous infrastructure and industrialization push, one which Sri Lanka alone will not have the capacity to carry out any time soon. The PRC party-state, on the other hand, has the necessary capacity. It can mobilize

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<sup>593</sup> Downs, “China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability,” 38.

<sup>594</sup> International Monetary Fund, “Pakistan,” 19.

<sup>595</sup> Downs, “China-Pakistan Economic Corridor Power Projects: Insights into Environmental and Debt Sustainability,” 39.

<sup>596</sup> Hong Zhang, “Beyond ‘Debt-Trap Diplomacy’: The Dissemination of PRC State Capitalism,” *China Brief* 19, no. 1 (January 2019), <https://jamestown.org/program/beyond-debt-trap-diplomacy-the-dissemination-of-prc-state-capitalism/>.

<sup>597</sup> Zhang.

<sup>598</sup> Zhang.

SOEs to invest in Sri Lanka, direct manufacturers to set up factories in Hambantota's export processing zone, and integrate Hambantota into the networks of ports, shipping lines, and railways under the control of its SOEs. Countries like Sri Lanka might find it difficult to resist such a ready-made economic development strategy, particularly one that can quickly deliver the kind of gains that elected politicians like tout to their constituencies.<sup>599</sup>

The political point is an important one. Ribbon cutting ceremonies unveiling huge infrastructure projects make for good publicity ahead of an election. Similarly, as Zhang notes, SOEs entrenched throughout a country's economy enable a PRC-backed political leader to mobilize massive PRC investment to support business plans that benefit a reelection campaign.<sup>600</sup> Thus, as Zhang concludes, the political appeal of China's state capitalism in developing countries could have more significant implications for China's influence in countries than the possible benefits of a debt-trap scenario.<sup>601</sup> Furthermore, another lesson to be learned from the Hambantota example is that economic influence alone is not enough to grant China military access to foreign ports. Rather, economic influence combined with political influence creates the most likely conditions for China's military to utilize foreign ports. Wingo writes, "It is difficult to convert economic influence into military access without either some degree of willingness on the part of the recipient...competition from both domestic political rivals and international sources of funding, where they exist, make militarization even less likely."<sup>602</sup> Thus, we now turn to political influence.

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<sup>599</sup> Zhang.

<sup>600</sup> Zhang.

<sup>601</sup> Zhang.

<sup>602</sup> Scott Wingo, "Mind the Trap: What Basing Rights in Djibouti and Sri Lanka Reveal About the Limitations of Debt as a Tool of Chinese Military Expansion," *China Brief* 20, no. 7 (April 2020), <https://jamestown.org/program/mind-the-trap-what-basing-rights-in-djibouti-and-sri-lanka-reveal-about-the-limitations-of-debt-as-a-tool-of-chinese-military-expansion/>.

## 5. Influence in Gwadar Port from Political Ties

### a. *Importance of political influence, the example of Sri Lanka*

The case of Sri Lanka demonstrates that for China to gain military access to a foreign port, military and economic influence alone are not enough; a political base of support is also necessary. China began cultivating a political base in Sri Lanka during the final years of the Rajapaksa government's crackdown on the Liberation Tigers of Tamil Eelam (LTTE) in 2008–2009. In addition to providing weapons, China shielded Rajapaksa from United Nations Security Council resolutions for human rights violations committed against the LTTE.<sup>603</sup> This political relationship deepened, and Sri Lanka drifted closer to China over the rest of Rajapaksa's presidency.<sup>604</sup> In 2018, evidence emerged that China had tried to manipulate Sri Lanka's domestic politics. According to Abi-Habib, during Rajapaksa's 2015 election campaign, "large payments from the Chinese port construction fund flowed directly to campaign aides and activities for Mr. Rajapaksa."<sup>605</sup> This context helps explain why, as Abi-Habib writes, "[Rajapaksa] agreed to Chinese terms at every turn and was seen as an important ally in China's efforts to tilt influence away from India in South Asia."<sup>606</sup> Under Rajapaksa's tenure, a Chinese submarine made port visits in Colombo.<sup>607</sup> Also under Rajapaksa, Sri Lanka's government took on large amounts of debt from China to build infrastructure projects in Hambantota, including an economically unfeasible port.

However, in 2015, Rajapaksa lost the election to Maithripala Sirisena, indicating a shift in Sri Lanka's relations with China. Sirisena had openly criticized Rajapaksa's increasing reliance on Chinese foreign investment during his campaign and had indicated

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<sup>603</sup> Saurabh Singh, "China's Strategic Relations with Sri Lanka," South Asian Voices, July 10, 2020, <https://southasianvoices.org/chinas-strategic-relations-with-sri-lanka/>.

<sup>604</sup> Panini Wijesiriwardane, "Sri Lankan President Signs 'Strategic Cooperative Partnership' with China," June 11, 2013, <https://www.wsws.org/en/articles/2013/06/11/sril-j11.html>.

<sup>605</sup> Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

<sup>606</sup> Abi-Habib.

<sup>607</sup> Aneez and Sirilal, "Chinese Submarine Docks in Sri Lanka despite Indian Concerns."

a rebalance towards the West and India.<sup>608</sup> With the new Sri Lankan government cultivating closer ties with India, China no longer had same military access to Sri Lankan ports, and in May 2017, Sirisena's government rejected a request from China to dock one of its submarines in Colombo. The lesson to be learned from the Sri Lanka example is that military influence and economic influence are necessary but not sufficient for China to gain military access to foreign ports. It takes a strong political base cultivated over time to achieve the conditions required to allow a Chinese naval vessel to dock, much less home port, in a foreign country. However, if there is one country where China possesses significant political influence, it is Pakistan.

**b. *China's political influence in Pakistan***

China's political ties with Pakistan go back to 1951 when Pakistan became one of the first states to recognize the People's Republic of China.<sup>609</sup> Since then, China has deepened its economic and, in particular, military ties with Pakistan. China and Pakistan's economic relationship will continue to strengthen. And as Rajagopalan argues, so will their military relationship.<sup>610</sup> More recently, however, China has begun increasing its political ties with Pakistan. In August 2020, China hosted Foreign Minister Shah Mahmood Qureshi for the second round of the China-Pakistan Foreign Ministers' Strategic Dialogue.<sup>611</sup> In the words of Pakistan's Foreign Minister Qureshi, these kinds of visits "play an important role in further strengthening Pakistan-China 'All-Weather Strategic Cooperative Partnership' and deepen strategic communication and coordination with China on a range of issues."<sup>612</sup> In press releases, China has reiterated that Pakistan and China are "iron brothers" and affirmed its support of Pakistan's core interests, just as Pakistan reaffirmed

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<sup>608</sup> James Crabtree, "Opposition's Sirisena Wins Election in Sri Lanka," *Financial Times*, January 9, 2015, <https://www.ft.com/content/254cbce0-97a5-11e4-be9d-00144feabdc0>.

<sup>609</sup> Small, *The China-Pakistan Axis: Asia's New Geopolitics*, 19.

<sup>610</sup> Rajagopalan, "The China-Pakistan Partnership Continues to Deepen."

<sup>611</sup> Naveed Siddiqui, "'Iron Brothers': China, Pakistan Agree to Safeguard Common Interests, Strengthen Cooperation in All Areas," *Dawn.Com*, August 21, 2020, <https://www.dawn.com/news/1575658>.

<sup>612</sup> Siddiqui.

its support for China’s core issues, including Taiwan, Xinjiang, Tibet, and Hong Kong.<sup>613</sup> However, this is not just the political stance of a small segment of Pakistan’s political leadership, but, in the words of Foreign Minister Qureshi, “the stance of the political and military leadership of the country.”<sup>614</sup>

(1) Political ties with Pakistan’s prime minister

It is certainly evident that Pakistan’s prime minister shares Foreign Minister Qureshi’s political stance on China. Khan has praised the CPC’s political system, which he said is “more remarkable than any electoral democracy.”<sup>615</sup> Perhaps most illustrative of Prime Minister Khan’s political ties with the CPC is the personal letter he penned titled “Pakistan and China, iron brothers and strategic partners—today and forever.” In the letter, Prime Minister Khan commemorates the 70<sup>th</sup> anniversary of establishing diplomatic relations and China’s 100<sup>th</sup> anniversary of founding the Communist Party of China.<sup>616</sup> Over the past seven decades, Khan explains, the China-Pakistan relationship has grown into an “All-Weather Strategic Cooperative Partnership.” Just as China “has stood by Pakistan in supporting our key strategic, economic, and developmental priorities,” he writes, Pakistan also supports China’s core interests, including the “One-China Policy” as well as “Taiwan, Tibet, Xinjiang, Hong Kong, and South China Sea issues.”<sup>617</sup> He points out that “Pakistan is one of the earliest supporters and participants of President Xi Jinping’s Belt and Road Initiative (BRI)” and “emphatically endorse [s] the spirit and philosophy of the BRI, which seeks to transcend national boundaries and lay bridges for a win-win cooperation and closer economic integration for a shared future.”<sup>618</sup> “On behalf of the government and people of Pakistan,” he writes, “I would like to reaffirm to our Chinese

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<sup>613</sup> Siddiqui.

<sup>614</sup> Siddiqui.

<sup>615</sup> Wenting Xie, “Strong China-Pakistan Relations Have Nothing to Do with India: Pakistani PM,” *Global Times*, June 30, 2021, <https://www.globaltimes.cn/page/202106/1227439.shtml>.

<sup>616</sup> Khan, “A Letter from Prime Minister of Pakistan: Pakistan and China, Iron Brothers and Strategic Partners – Today and Forever.”

<sup>617</sup> Khan.

<sup>618</sup> Khan.

brothers and sisters that they will always find in Pakistan a most reliable partner, an ironclad brother, and trusted friend who will stand by China, not only amid the gentle tides of peace and prosperity, but also in the rising storms of peril and predicaments.”<sup>619</sup> Prime Minister Khan could hardly be more clear about his support for China and its policies. Much like China enjoyed the political backing of former president Rajapaksa in Sri Lanka, China currently has top-level political backing in Pakistan.

## (2) Political ties with national political parties

In addition to its deep political ties with Prime Minister Khan and his administration, China has begun forging political ties with the rest of Pakistan’s political stakeholders, including the opposition parties and, especially, those in Balochistan, where Gwadar is located.<sup>620</sup> Chinese Ambassador Nong Rong, while speaking at a webinar hosted by Pakistan-China Institute (PCI), emphasized that the Communist Party of China “attaches great importance to exchanges and cooperation with Pakistani political parties, and will give full play to the advantages of inter-party relations to reach the consensus among parties and make the contribution of party-to-party exchanges to build a closer China-Pakistan Community of Shared Future in the new era.”<sup>621</sup> To do so, Beijing has developed an institutional cooperation mechanism, the joint consultation mechanism (JCM).<sup>622</sup> Started in 2019, the JCM brings together representatives from the Communist Party of China, nine of Pakistan’s political parties, and Chinese and Pakistani government and business representatives.<sup>623</sup> Song Tao, minister of the International Department of the Chinese Communist Party (CPC) Central Committee, describes the JCM as “an innovation to intensify China-Pakistan party-to-party relations.”<sup>624</sup> Some analysts, such as Safdar,

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<sup>619</sup> Khan.

<sup>620</sup> Baqir Sajjad Syed, “Communist Party of China Urges Greater Cooperation with Political Parties,” *DAWN.Com*, June 18, 2021, <https://www.dawn.com/news/1629966>.

<sup>621</sup> Syed.

<sup>622</sup> Syed.

<sup>623</sup> “1st Meeting of CPEC Political Parties Joint Consultation Mechanism Held in Beijing,” *Xinhua*, March 19, 2019, [http://www.xinhuanet.com/english/2019-03/19/c\\_137907903.htm](http://www.xinhuanet.com/english/2019-03/19/c_137907903.htm).

<sup>624</sup> Xinhua, “1st Meeting of CPEC Political Parties Joint Consultation Mechanism Held in Beijing.”



believe that China utilizes the JCM “to build a local political consensus between Pakistan’s national and regional parties, especially those from Balochistan, to galvanize support for China’s own interests regarding the CPEC.”<sup>625</sup> Syed points out that by expanding “the scope of communication and coordination between the two countries from government and military channels to political parties, Beijing has shown its recognition of the importance of Pakistani political parties in the country’s governance system.”<sup>626</sup> Beijing seeks to build broad-based political support, not just among the ruling national political party, but also the opposition parties and the regional parties and political stakeholders.

The evidence suggests that China’s efforts to build a broad political consensus have yielded results. The second JCM meeting held in August last year brought together nine of Pakistan’s political parties, including Pakistan’s three largest national parties—the Pakistan Tehreek-e-Insaf, the Pakistan Muslim League (Nawaz), and the Pakistan People’s Party, regional parties—the Awami National Party, the Pakhtunkhwa Milli Awami Party, the Balochistan Awami Party, and the National Party, and religious parties—Jammat-e-Islami and the Jamiat-e-Ulma-e-Islam-Fazal, as well as leading government and business officials from both countries.<sup>627</sup> According to an article in *Dawn*, these groups all joined in a political consensus on the need to “ensure a conducive political environment and favourable [sic] public opinion” for CPEC. Senator Sanjrani said, “that Senate would play a greater role in taking forward the consensus of political parties and delivering political support for more cooperation between the two countries under CPEC.”<sup>628</sup>

One of the reasons Pakistan’s political elites are falling in line with Beijing’s political interests is because they realize CPEC projects such as the Gwadar Port project are central to Pakistan’s future—and perhaps their own political future—and want to

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<sup>625</sup> Muhammad Tayyab Safdar, “The Local Roots of Chinese Engagement in Pakistan,” Carnegie Endowment for International Peace, June 2, 2021, <https://carnegieendowment.org/2021/06/02/local-roots-of-chinese-engagement-in-pakistan-pub-84668>.

<sup>626</sup> Syed, “Communist Party of China Urges Greater Cooperation with Political Parties.”

<sup>627</sup> Mehtab Haider, “China, Pakistan Agree to Preserve, Protect, Promote CPEC,” *The News*, August 21, 2020, <https://www.thenews.com.pk/print/703654-china-pakistan-agree-to-preserve-protect-promote-cpec>.

<sup>628</sup> “Parties Vow to Ensure CPEC Progress, Guard It against Threats,” *DAWN.Com*, August 21, 2020, <https://www.dawn.com/news/1575572>.

ensure their success. In a message to the conference, President Arif Alvi called CPEC, “an iconic project of the Belt and Road Initiative which will change the destiny of the region.”<sup>629</sup> He then reaffirmed Pakistan’s support of China’s One China policy and Pakistan’s opposition to foreign intervention in the affairs of Hong Kong and Taiwan.<sup>630</sup>

China also has the political backing of some of Pakistan’s most prominent national political parties. Speaking at the conference, Pakistan’s People’s Party (PPP)’s Parliamentary Leader in Senate, Senator Sherry Rehman said, “The CPEC goes beyond partisan politics for us, and we are all united around one fundamental truth: In a world defined by unexpected conflicts and challenges, the CPEC is the economic stabiliser [sic] that can steer Pakistan into the 21st century and become a connected highway to the future.”<sup>631</sup> Highlighting the PPP’s commitment to CPEC, Senator Rehman said, “The PPP is fully committed to realizing the dream of this great platform connecting the two countries.”<sup>632</sup> Furthermore, Senator Rehman asserted, “Pakistan and PPP support One China policy and the sovereignty and continual growth of China.”<sup>633</sup>

Senator Rehman was not the only senior political representative to voice support for CPEC and fall in line with China’s political interests. Chairman of the Senate Committee on Foreign Affairs and a member of the Pakistan Muslim League, Senator Mushahid Hussain Sayed said, “Pakistan fully supports China in the defence [sic] of its territorial integrity and sovereignty, rejects politicising [sic] of the pandemic, appreciates China’s positive role, and rejects the notion of a new cold war. Both countries support each other’s core interests.”<sup>634</sup> He said that Pakistan rejects the politicization of the pandemic, and he congratulated China on its leadership and support during the COVID-19 crisis.<sup>635</sup>

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<sup>629</sup> Haider, “China, Pakistan Agree to Preserve, Protect, Promote CPEC.”

<sup>630</sup> Haider.

<sup>631</sup> DAWN.com, “Parties Vow to Ensure CPEC Progress, Guard it Against Threats.”

<sup>632</sup> DAWN.com, “Parties Vow to Ensure CPEC Progress, Guard it Against Threats.”

<sup>633</sup> DAWN.com, “Parties Vow to Ensure CPEC Progress, Guard it Against Threats.”

<sup>634</sup> DAWN.com, “Parties Vow to Ensure CPEC Progress, Guard it Against Threats.”

<sup>635</sup> Haider, “China, Pakistan Agree to Preserve, Protect, Promote CPEC.”

He also echoed the comments of his Senate colleagues, voicing Pakistan's support for China's territorial sovereignty and its core interests.<sup>636</sup>

### (3) Political ties with regional political parties

China has the support Pakistan's national political parties, but China also has a regional political base in Balochistan, where Gwadar Port is located. In July 2020, representatives from Balochistan's mainstream political parties, the Chinese ambassador, and Chinese companies involved in CPEC projects in Balochistan attended a video conference hosted by the Emerging Policymakers' Institute, an Islamabad-based think tank.<sup>637</sup> According to an article in *Xinhua*, representatives from the local political parties pledged their commitment to CPEC and the hope that it would "bring peace, prosperity and development in Pakistan's southwest Balochistan province."<sup>638</sup> They also noted their appreciation for China's help in fighting the COVID-19 pandemic.<sup>639</sup> Governor of Balochistan, Amanullah Khan Yasinzai echoed this support for CPEC, which he reiterated a couple months later at the second JCM, also taking the opportunity to thank China for its COVID-19 support and admonishing Western media for its reporting of the Xinjiang issue.<sup>640</sup> It is significant that China has such a strong political base in Pakistan. In Sri Lanka, where Beijing lacked the political support of the opposition parties, it saw its political foothold crumble when the elections brought a new political party to office. In Pakistan, however, China has deep political support, not just of the Prime Minister but of the opposition parties and the regional parties and political stakeholders. Thus, China can likely count on a high degree of political influence for the foreseeable future.

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<sup>636</sup> Haider.

<sup>637</sup> "CPEC to Bring Peace, Prosperity for Pakistan's Balochistan Province: Political Representatives," *Xinhua*, July 11, 2020, [http://www.xinhuanet.com/english/2020-07/11/c\\_139204353.htm](http://www.xinhuanet.com/english/2020-07/11/c_139204353.htm).

<sup>638</sup> "CPEC to Bring Peace, Prosperity for Pakistan's Balochistan Province: Political Representatives."

<sup>639</sup> "CPEC to Bring Peace, Prosperity for Pakistan's Balochistan Province: Political Representatives."

<sup>640</sup> Haider, "China, Pakistan Agree to Preserve, Protect, Promote CPEC"; "CPEC to Bring Peace, Prosperity for Pakistan's Balochistan Province: Political Representatives."

## H. CONCLUSION

Given Gwadar Port's lacking economic viability, some foreign observers have questioned whether China's investment in Gwadar Port is also based on a strategic rationale rather than purely a commercial one. Some analysts see Gwadar Port as future a dual-use port that will provide the PLAN an overseas logistics base to sustain its far seas operation in the Indian Ocean. This chapter has examined this claim by assessing whether Gwadar currently has strategic viability. Based on the framework presented in this chapter, Gwadar is a viable dual-use port; however, it is far from likely that China would choose to moor its naval vessels in Gwadar over Pakistan's more suitable naval bases along the Makran Coast.

Gwadar Port passes the first criteria, it has the necessary naval base characteristics. The port is situated in a strategic location along vital sea lines and at a critical chokepoint to the Arabian Gulf. Based on the China's current mission set in the Indian Ocean, Gwadar Port also has the necessary infrastructure, capable of providing replenishment and resupply functions. However, while Gwadar Port has the storage yards, refrigerated cargo space, and other critical infrastructure to accommodate the basic needs of commercial and military vessels, it lacks the facilities to meet more complex requirements like ship repair and force protection that would be required should China decide to undertake more robust military operations in the Indian Ocean. In fact, other naval bases in Pakistan, such as those in Karachi and Ormara, are far more capable destinations for PLAN vessels based on their familiarity with PLAN naval vessels, their advanced ship building and repair capabilities, and their force protection capabilities. Pakistan's recent and future procurements of PLAN naval vessels, as well as a new shipyard currently in construction will close this gap; however, as it stands now, Gwadar is far from the primary choice for PLAN vessels stopping in Pakistan.

These factors are necessary conditions for Gwadar Port to be a strategically viable candidate for a Chinese dual-use port; however, they are not sufficient. The determinative factor is whether Beijing has the influence necessary to gain military access to Pakistan's ports. The presence of "state-owned" enterprises in Gwadar provides Beijing one form of influence in Gwadar; however, this form of influence should not be overstated and the degree of autonomy of SOEs not underestimated. That said, laws such as the National

Defense Transportation Law enacted in 2016 suggest that the state retains the ability to obligate overseas businesses like COPHC to provide certain resupply functions, although the degree of logistical support remains unclear. It is also unclear the level of assistance Pakistan would permit COPHC to provide, although as the port operator of Gwadar Port, the COPHC is in the best position to provide logistical support for PLAN naval operations.

Nevertheless, port concessions are not likely to be the primary mechanism with which Beijing will influence Islamabad to gain military access to Gwadar. More likely, China's military, economic, and political ties will be leveraged to gain access. Described as the backbone of China and Pakistan relations, military ties between the two countries continue to grow stronger. Military sales and joint exercises facilitate PLAN presence in Pakistani ports like Gwadar. The increasing presence of Chinese built vessels in the Pakistani navy increases the likelihood that Pakistan's ports will have the facilities and technical know-how to accommodate PLAN vessels in the future. Furthermore, joint exercises increase the PLAN's familiarity with the Indian Ocean while normalizing its presence, two necessary factors if Beijing is to maintain a permanent presence in the Indian Ocean.

Beijing could also leverage its financial influence to gain military access to Gwadar. Beijing already has a track record of using economic tools, and in Pakistan, these tools are especially potent. China is Pakistan's most important FDI contributor and considering Pakistan has struggled to attract other foreign investors, this provides Beijing a degree of influence. That China is Pakistan's largest trading partner only enhances China's position. Pakistan's trade deficit, to which China is an important contributor, plays a role in Pakistan's struggling balance of payments problem. Some analysts speculate that China could take advantage of this situation by exchanging debt for long-term port concessions. That China is the largest holder of Pakistan's debt does not substantiate these claims. After all, debt is a necessary condition of development. However, based on different measures such as Pakistan's debt-to-GDP ratio or interest-to-revenue ratio, Pakistan has severe debt sustainability issues. Therefore, a case can certainly be made that burdening Pakistan with unsustainable debt and doomed commercial projects is hurting, not helping the situation.

China's short-term and expensive loans do not seem helpful either. If Pakistan's many IMF bailouts have not rescued Pakistan's economy, it seems unlikely that China's bailouts will fare any better. If China were intent on assisting Pakistan out of debt it seems more productive to reduce their trade imbalance. That China has done just the opposite suggests to some that China seeks to catch Pakistan in a debt trap. These analysts point to the case of Sri Lanka's Hambantota port and claim China will replicate its success in other South Asian ports. Hambantota and Gwadar certainly share several striking similarities. Furthermore, while China's debt negotiations with Pakistan so far do not point undeniably at a future asset seizure, neither do they provide any assurances of China's generosity.

Other analysts believe the debt trap narrative is an inaccurate characterization. After all, why would China undermine its relationship with Pakistan by weakening its economy or undermine its goal of making Pakistan a stable, prosperous country? Furthermore, it is more than likely that China would not need to resort to a debt trap to achieve greater access to Pakistani ports. Moreover, Sri Lanka's example proved that financial influence is insufficient for long-term military access; a deep political is also vital. If there is one country where China possesses significant political influence, it is Pakistan. Clearly, China enjoys the political support of Pakistan's Prime Minister, Prime Minister Khan's personal letter commemorating the 70<sup>th</sup> anniversary of the establishment of diplomatic ties between China and Pakistan makes this quite evident. However, China has also established a political base with the rest of Pakistan's political stakeholders, including opposition parties, religious parties, and local parties in Balochistan, which implies China can rest assured that changes in Pakistan's political lineup will not endanger its political influence in the country, and particularly in Balochistan where Gwadar Port is located. Thus, based on the entire strategic viability framework presented, while Gwadar Port is far from the most likely candidate for a future PLAN logistics base, it is a strategically viable candidate, nevertheless.

## V. CONCLUSION

China's expanding overseas interests compel it to expand its naval presence to the Indian Ocean, but this will require China to establish overseas logistics facilities, or strategic strongpoints. China has long denied any intention to establish overseas bases; however, China's growing dependence on overseas trade and resources makes this stance increasingly less tenable. Furthermore, China's relatively recent military facility in Djibouti makes this assertion less believable. However, one overseas logistics facility is insufficient to sustain a meaningful overseas PLAN presence. Therefore, China needs to establish more strategic strongpoints, and most analysts see Gwadar Port in Pakistan as one of the most likely locations for the next one. Beijing and Islamabad officially disparage this prediction. They claim Gwadar Port is purely a commercial endeavor and even envisage it someday becoming a gateway port to rival Dubai. However, Gwadar Port has been economically unviable since the original feasibility study, and it has seen dismal commercial activity since its inauguration. Foreign observers are, thus, led to question why China would take responsibility for an unprofitable port if not for strategic gains. This thesis lies at the confluence of these two competing narratives. It has examined Gwadar Port's viability, evaluating both its commercial viability as well as its dual-use viability.

### A. MAIN FINDINGS

The research presented in this thesis suggests that Gwadar Port is not yet a viable commercial port. Based on the commercial viability framework presented in Chapter III, Gwadar Port is still a long way away from becoming a regional economic hub, much less a desirable commercial alternative to other ports in the region. At the same time, compared to Pakistani naval bases along the Makran Coast, Gwadar Port is also a long way from becoming a port of choice for the PLAN. Based on the dual-use framework presented in Chapter IV, Gwadar Port meets the minimum requirements to serve as an overseas logistics base for PLAN vessels; however, in comparison to Pakistan's other naval bases, namely Karachi Naval Base and Jinnah Naval Base, it is unlikely that Gwadar Port will become an overseas logistics base for PLAN vessels anytime soon.

## **B. DETAILED FINDINGS**

Based on an analytical framework to evaluate Gwadar Port's commercial viability, the findings suggest Gwadar Port is not likely to rival Dubai, much less the other commercial ports in Pakistan. Gwadar Port is advantageously located to facilitate trade with Central Asia, Afghanistan, and China, but the port lacks sufficient hinterland connectivity to serve as a gateway port. Gwadar Port's potential as a trade hub will remain limited until it is reliably connected to these regional markets via road, railway, and pipeline. A chronic insurgency and persistent political instability further hinder Gwadar's economic potential by jeopardizing the port and its commercial prospects. Add to these issues chronic water and power shortages, and the result is a port that will remain an undesirable destination for commercial shipping compared to Pakistan's other commercial ports in Karachi and Port Qasim. This finding is significant because it adds weight to the claim that China's investment is not based purely on commercial logic but also a strategic rationale.

Based on an analytical framework to evaluate Gwadar Port's dual-use viability, the findings suggest that Gwadar Port is indeed viable as a dual-use port, even if it is not likely to see PLAN ships anytime soon. The port is both strategically located and has the minimum required infrastructure to facilitate PLAN's current mission-set in the Indian Ocean; however, compared to Pakistan's other more capable naval bases along the Makran Coast, Gwadar Port is not likely a first nor second choice port of call for PLAN vessels. Nevertheless, if Beijing chooses to utilize Gwadar in the future, the PLAN will likely have little issue gaining military access to Gwadar Port. While it is unclear the degree to which Beijing can exert influence on port operations via COPHC—the Chinese SOE that operates Gwadar Port—the National Defense Transportation Law suggests that COPHC may be obligated to provide certain resupply functions for PLAN vessels if called upon, and, as the port operator, COPHC is optimally positioned to do so.

Port concessions are not likely the primary mechanism with which Beijing will compel Islamabad to grant China military access to Gwadar. More likely, China will leverage its military, economic, and political ties with Pakistan. China's military ties form the backbone of China-Pakistan relations. While also enhancing trust and building deeper



ties with Pakistan's military—an influential political actor in Pakistan—military sales and joint exercise increase the dual-use viability of Pakistani ports by increasing the likelihood that the ports will have the parts, facilities, and technical know-how to service and sustain PLAN vessels. Furthermore, joint exercises increase PLAN familiarity with the Indian Ocean while also normalizing the PLAN presence there.

In addition to leveraging its military ties, China can leverage financial tools to help facilitate PLAN access agreements to Pakistan's ports. China is Pakistan's most important foreign investor, willing to invest where other countries are not, which provides China a certain degree of leverage. Considering China is also Pakistan's largest trading partner, the same logic applies to China and Pakistan's trade relationship. China's ability to significantly influence Pakistan's trade deficit allows China to affect Pakistan's debt sustainability since exports are critical for servicing foreign debt. This is important because Pakistan faces severe debt sustainability issues when evaluated on a debt-to-GDP or interest-to-revenue ratio, which begs the question of whether burdening Pakistan with more debt from an unprofitable port project is more harmful than helpful.

Similarly, China's short-term, expensive loans do not appear to be helping Pakistan's debt situation. Balancing China and Pakistan's increasingly lopsided trade balance would help; however, the deficit has only grown larger each year. Some analysts, thus, suggest that China may leverage Pakistan's debt for more favorable port concessions, as China did in Sri Lanka. Though some analysts believe Sri Lanka was a one-off, the similar circumstances surrounding Hambantota port and Gwadar Port suggest that a debt trap scenario is plausible. On the other hand, just because it is plausible does not mean a debt trap is likely. Employing a debt trap might undermine China's relationship with Pakistan, as it did China's relationship with Sri Lanka. Furthermore, the Sri Lanka example demonstrated that financial leverage alone is insufficient to secure long-term military access to foreign ports; deep political ties are also crucial.

In recent years, China has cultivated a broad political base in Pakistan. Pakistan's prime minister's effusive public statements indicate that Beijing has political sway among the highest levels of Pakistan's government. China has also established a political base with the rest of Pakistan's political stakeholders—including opposition parties, religious

parties, and local parties in Balochistan, as evinced by their public statements backing China's government and its policies. This is significant because it suggests that future elections are not likely to endanger China's political influence, as was the case in Sri Lanka. Thus, Gwadar Port is a viable candidate for a dual-use port based on the dual-use viability framework.

### **C. SIGNIFICANCE OF FINDINGS**

These findings are significant because they shed light on why China chose to invest in Gwadar. However, the mere fact that China had more than one intended purpose for Gwadar Port is, by itself, not hugely significant. As already discussed, the PLAN would likely utilize the naval bases in Karachi and Ormara before considering Gwadar Port. The broader significance of these findings is that China may have ulterior designs for the rest of its 21<sup>st</sup> Century Maritime Silk Road port infrastructure investments beyond just promoting economic development, as Beijing claims. In addition to Gwadar in Pakistan, China has invested in ports such as Kyaukpyu in Myanmar, Chittagong in Bangladesh, and Hambantota in Sri Lanka. Gwadar Port demonstrates a politically viable way for China to establish strategic footholds in each of these countries. Most of these countries are likely to be unwilling—at least at this point—to accept the geopolitical ramifications of allowing China permanent military access; however, considering China already has one strategic strongpoint in Djibouti, China would need only one country to acquiesce to significantly enhance Chinese naval presence in the Indian Ocean. Thus, these findings hint at an emerging Indian Ocean maritime strategy, and they bear directly on the increasing strategic competition in the Indian Ocean region.

### **D. IMPLICATIONS**

A more significant Chinese naval presence in the Indian ocean would have important implications for Indian Ocean security. As Brewster writes, the “new maritime pathways across the Indian Ocean” could potentially “alter the Indian Ocean naval balance

and the entire strategic nature of the region.”<sup>641</sup> China currently maintains a modest naval footprint in the Indian Ocean to perform maritime security tasks. As this footprint increases, China’s role as a net security provider in the region will likely increase as well. This has implications for all Indian Ocean states, but most of all, it has important implications for India. A maritime security affairs specialist, Singh says China could supplant the Indian Navy as a net security provider in the Indian Ocean, eroding “India’s strategic influence in the region.”<sup>642</sup> Another senior naval security analyst, Khurana says this would likely lead to a fundamental shift in the regional balance of power.<sup>643</sup> He writes, “Even if the balance remained in favour [sic] of the U.S., its allies and its partners, it is likely to be precarious, leading to brinkmanship and reducing regional stability.”<sup>644</sup>

### 1. Implications for India

As the increasing Chinese naval presence in the Indian Ocean—long a “relatively closed strategic space,” as Brewster notes—renders it more open, secure, and accommodating to China’s interests, India is likely to face conflicts to its own interests and an increased security dilemma.<sup>645</sup> Countries where India has long held sway as the proximate power, such as Bangladesh, Sri Lanka, Seychelles, and the Maldives, could increasingly become arenas of Sino-Indian geopolitical contestation as China vies for influence over India’s smaller neighbors. A more assertive Pakistan, strengthened by Chinese port infrastructure investments and military procurements, and, perhaps, made more confident by a growing PLAN presence, may feel less restrained and act more assertively towards India, leading to heightened competition and increased possibility of

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<sup>641</sup> David Brewster, “The MSRI and the Evolving Naval Balance in the Indian Ocean,” in *China’s Maritime Silk Road Initiative and South Asia*, ed. Jean-Marc F. Blanchard (Singapore: Springer Singapore, 2018), 55, [https://doi.org/10.1007/978-981-10-5239-2\\_3](https://doi.org/10.1007/978-981-10-5239-2_3).

<sup>642</sup> Abhijit Singh, “China: Getting Ready to Dominate the Indian Ocean?,” *The National Interest* (blog), January 27, 2015, <https://nationalinterest.org/blog/the-buzz/china-getting-ready-dominate-the-indian-ocean-12130>.

<sup>643</sup> Gurpreet S. Khurana, “China as an Indian Ocean Power: Trends and Implications,” *Maritime Affairs: Journal of the National Maritime Foundation of India* 12, no. 1 (2016): 20, <https://doi.org/10.1080/09733159.2016.1175127>.

<sup>644</sup> Khurana, 20.

<sup>645</sup> Brewster, “The MSRI and the Evolving Naval Balance in the Indian Ocean,” 55.

conflict between these two long-time adversaries. China and India also have a quarrelsome past dating back to the 1962 Sino-Indian war and perpetuated through an ongoing border dispute. India's growing sense of insecurity, due largely to an increasingly unfavorable military and economic disparity between the two countries, will be further aggravated by the increased presence of Chinese naval vessels in waters in which India has historically remained unchallenged.

An increased presence of Chinese submarines would especially heighten India's insecurity. Even if China does not go so far as to moor its submarines in Indian Ocean ports, it could nevertheless position submarine tenders in ports such as Gwadar that can replenish PLAN submarines at sea.<sup>646</sup> As Khurana points out, China might then deploy its Type-094 Jin-class ballistic missile submarines to the Indian Ocean.<sup>647</sup> Should Beijing choose to do so, it would significantly ratchet up Indian insecurity, and understandably so, considering India, as Khurana writes, would face an "indeterminate nuclear threat."<sup>648</sup> Beijing could further intensify the Sino-Indian security dilemma if it decides to change its current "no-first-use" policy because, as Khurana points out, "then conventional land attack cruise missile (LACM) strikes by Chinese SSNs could neutralize [sic] India's nuclear command-and-control nodes to disable its second-strike capability."<sup>649</sup> Considering these implications for Indian security and Indian Ocean stability, it is thus significant that Gwadar Port, the location identified by security analysts as the next most likely Chinese strategic strongpoint, is viable less as a commercial port than as a dual-use port, potentially helping to facilitate an increased PLAN presence in the Indian Ocean and serving as a proof of concept for the rest of China's MSRI port infrastructure investments.

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<sup>646</sup> Khurana, "China's 'String of Pearls' in the Indian Ocean and Its Security Implications," 17.

<sup>647</sup> Khurana, 17.

<sup>648</sup> Khurana, 19.

<sup>649</sup> Khurana, 19.

## 2. String of Pearls?

The implications of China's increasing presence facilitated by dual-use commercial ports are serious, but they should not be overstated. These findings do not suggest that full-scale Chinese naval bases in the Indian Ocean are forthcoming—at Gwadar or the rest of the so-called “String of Pearls” sites. This prospect has been considered, and reconsidered, by many analysts over the years. However, as analysts such as Yung have shown, there is still little evidence to support the claim that China is attempting to build a string of naval bases across the Indian Ocean to become the dominant naval power in the region.<sup>650</sup>

Furthermore, if Gwadar, or any of the ports at the string of pearls locations, were to be developed into naval bases, China would need to make some major changes. Holmes point out that China would need to “harden the port facilities” and “install defenses against air and naval assault.”<sup>651</sup> Otherwise, as Yung argues, it would make little strategic sense for China to place “high value PLAN assets within range of Indian precision air and missile threats.”<sup>652</sup> Yung also points to the inability of the “String of Pearls” model “to support the logistics needs of a large Chinese air and naval force focused on combat operations.”<sup>653</sup> “China,” he concludes, “would need a much more robust logistics infrastructure to support such a force.”<sup>654</sup> These upgrades would be noticeable. Furthermore, they would also require a change in Chinese foreign policy. As Yung and Rustici point out, building overseas naval bases would violate two of China's fundamental foreign policy principles: noninterference and not acting as a hegemonic power.<sup>655</sup> Additionally, as Yung notes, building “offensively oriented naval and air forces and associated logistics support bases in the Indian Ocean” would undermine the image of China's “peaceful rise.”<sup>656</sup>

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<sup>650</sup> Yung, “Burying China's ‘String of Pearls.’”

<sup>651</sup> Yung.

<sup>652</sup> Yung.

<sup>653</sup> Yung.

<sup>654</sup> Yung.

<sup>655</sup> Yung and Rustici, “China Strategic Perspectives 7: Not an Idea We Have to Shun: Chinese Overseas Basing Requirements in the 21st Century,” 21.

<sup>656</sup> Yung, “Burying China's ‘String of Pearls.’”

### 3. Evaluating Future Indications of Increasing Viability

This is not to say that such drastic policy shifts are outside the realm of possible. As Holmes puts it, “Some things are true until they’re not” and “just because China hasn’t built bases in the Indian Ocean yet doesn’t mean it won’t in the future.”<sup>657</sup> If China were to decide to build bases in the Indian Ocean, it seems more likely that China would take a more gradual approach. If this is the case, then there will likely be observable indicators that China is enhancing the dual-use viability of its port investments in the Indian Ocean. Therefore, security analysts in India and the in the United States are justified to continue scrutinizing the developments in Gwadar Port and the rest of the MSRI port infrastructure investments to see if they increasingly facilitate “win-win” commercial development or if they instead increasingly facilitate a more robust PLAN presence in the Indian Ocean. Hambantota Port in Sri Lanka stands out as a good candidate for future research. One reason is the previously mentioned similarities with Gwadar. The other reason is that the Rajapaksas are again at the helm of Sri Lanka’s government. This is a significant development if, as this author claims, political influence is indeed a determinative factor for a port’s dual-use viability. It is the author’s hope that this thesis and the analytical frameworks detailed above provide a starting point with which to conduct such analysis.

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<sup>657</sup> James R. Holmes, “China Could Still Build ‘String of Pearls,’” *The Diplomat*, November 8, 2014, <https://thediplomat.com/2014/11/china-could-still-build-string-of-pearls/>.

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