

## Role of Ports in the Economic Development of a Nation: Gwadar Port Perspective

Kausar Takrim \*

### Abstract

*No nation can achieve economic development in isolation; cross border trade is needed for this purpose. The transportation sector plays a strong role in national and regional development, and has strong influence on the integration of a nation to the world market. Ports constitute an important economic activity in coastal areas. The higher the throughput of goods and passengers at ports, the more infrastructure, provisions and associated services are required. These will bring varying degrees of benefits to the economy of a country. Ports are also important for the support of economic activities in the hinterland since they act as a crucial connection between sea and land transport. Pakistan has a rich history of trade across seas and can offer itself as a gate way and hub of trade because of its strategic and the geo-political situation in the region, Pakistan is a maritime nation having long coastal line of around 960 Km and to materialize its dream to become a hub of economic activities, Pakistan is constructing a deep sea port with the assistance of China at Gwadar, having close proximity to Persian Gulf, Middle East and to the international Sea Lanes of Communication. This paper explores the role of Gwadar port in the economic development of Pakistan.*

**Keywords:** Gwadar Port, China, Pakistan, Economic Development, CPEC, SEZs, Infrastructure.

### Introduction

Smith (1776) argued: “As by means of water-carriage, a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself ...”

World trade picked acceleration with the process of globalization and there is tremendous increase in import-export of goods and service around the world. This fast growth in world trade is because of development in technology and Introduction of economy of scale in shipping. Ports of the world are playing vital role in coping with this ever growing world trade by providing cheapest mode of transportation. The efficiency of a port can make it a wheel of economy for a nation. Port's function is not limited to transportation only but has expanded to the provision of logistic networks. The more efficient a port is the more will it earn as more traders will select it for their trade from around the world and will make it engine of foreign trade for that country. As a supplier of jobs, ports do not only serve an economic function but also a social function. Sea

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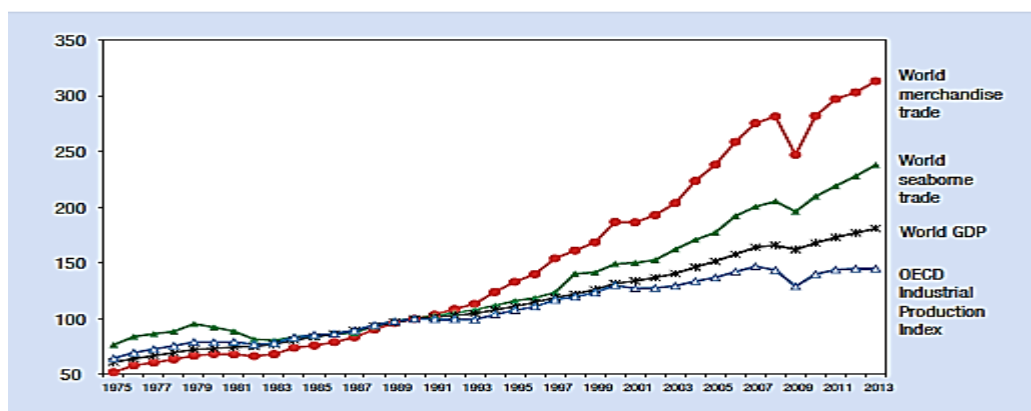
\* College of Home Economics, University of Peshawar

transportation is the most effective and economical transportation system compared to other transportation systems. Industries require a safe and cheap means of exporting finished goods and importing raw materials. Hence the majority of industries in the world are located in the coastal belts, in the vicinity of major ports. These industries in turn, influence the lives of the direct and indirect workers. Pakistan is a developing country and constant economic growth is its aim to achieve. In addition, last two decades have witnessed that poor economic conditions, high poverty rate, and high unemployment rate are the reasons of frustration among the population of Pakistan, taking the form of extremism and terrorism some times. To cope with the situation and to gain a sustained economic growth Pakistan is constructing a deep sea port with the help of China at Gwadar (an important part of C-PEC) as Ports are linking points of sea and land routes and can generate tremendous revenue for a nation by working efficiently. The most profound economic aspect of ports is their ability to act as a hub of economic activity in the surrounding region. Gwadar port in this respect is of extreme importance because of its geo-strategic position. It has attraction for central Asian states, Afghanistan and Xinjiang as gateway port and has the ability to attract trade from, Middle East, Eastern China and Gulf region by acting as a major transshipment port. Gwadar deep sea port is expected not only to enhance socio-economic conditions of the people of Pakistan but will also increase its strategic importance in Southwest Asian region. Pakistan at present is working with the commercial ports of Karachi and Bin Qasim. The ports of Karachi and Qasim are working at full capacity and will not be able to cope with future demands. Gwadar port got importance for China and rest of the world due to its beneficial placement in Arabian Sea. Pakistan ranked as the 20th best off shoring location in the world in the year 2009 (world bank report, 2009). Having port facilities in the country means serving the import and export needs of a well-defined region. The decision by the government of Pakistan to construct a port at Gwadar is based on the expected trade requirements of the region, increasing trends of transshipment, and above all the world demand for having a port at a strategic place to access new sources of natural resources. The purpose of the construction of Gwadar port is not only to fulfill the local demand of import export but also to provide a transshipment port to others so that money can be earned through someone else's trade along with boosting trade volumes of its own trade. It is expected that on materialization, Gwadar port has the potential to revive the economy of Pakistan. This study seeks to explore the role played by ports in the development of a nation and argue that Gwadar port can trigger the economy of Pakistan on materialization.

### **Role of Ports in Economic Development**

Hill (1986) argues that “the contribution of seaborne trade is not only for the growth in international economy but it also serves as an engine to develop the domestic economy and is a vehicle for the development and modernization of a country”. International trade is considered as primary engine for growth and development. There were many countries who were emphasizing on the strategies to be self-sufficient and to protect their own markets in the past. But now a days it is generally accepted that the economic growth of a country is possible only if it is integrated with the world markets. International trade growth is faster than the world economic growth (OECD report 2011). Economies of the

world are moving more rapidly towards interdependence with the advancement and facilitation in transportation. Sea is the provider of most economical and proficient transportation and around 90 % of the world trade is transported through sea (Bingham, 2007). In fact, the leading sector of a country like Singapore is the seaport. Japan built export processing zone due to sea ports which enabled it become exporters of goods which cannot be produced on the basis of country's factor endowment profile. The fast growth of the eastern coastal areas of china is due to ports and Dubai is on the fast track of economic development on the basis of its deep sea ports.



Sources: UNCTAD secretariat, on the basis of OECD *Main Economic Indicators*, May 2013; UNCTAD, *The Trade and Development Report 2013*; UNCTAD *Review of Maritime Transport*, various issues; World Trade Organization (WTO) (table A1a); the WTO press release 688, 10 April 2013, "World trade 2012, prospects for 2013". The value of the index measuring growth in world seaborne trade for 2013 is calculated on the basis of the growth rate forecast by Clarkson Research Services in *Shipping Review and Outlook*, spring 2013 (Clarkson Research Services, 2013a).

According to the UNCTAD (United Nations Conference on Trade and Development) definition, "seaports interfaces between several modes of transport and thus, they are centers for combined transport. Furthermore, they are multi-functional markets and industrial areas, where goods are not only in transit but are also sorted, manufactured and distributed". According to Hassan (2005), "seaports are multi-dimensional systems, which must be integrated within logistic chains to properly fulfill their functions". It is very important to note that seaborne trade contributes more than 10% to national income for the majority of the world's top economies (World Bank Report, 2010). 2012 witnessed a record of shipbuilding cycle with the continuous growth in world tonnage reached to 1.63 billion deadweight tons in January 2013 with the growth of 3.8%, though with a little slow speed than 2011. The growth in dry cargo flows made the major part of expansion in seaborne trade, specifically the growth in bulk commodities, i.e. 5.6% (Review of Maritime Transport, 2013). Asian ports were prominent in this picture.

Great changes are expected in future regarding world economy, and Asia will be the center of economic activities. (DNV Maritime and Oil & Gas report, 2012). Increasing trends of globalization, increasing demand of energy in China and South Asia and the benefits Pakistan can take from its very important geographical location to be a trade and energy corridor for China and the region, are the basic reasons for the construction of Gwadar port. According to the World Bank it is estimated that border crossing cost is

10% to 15% of the value of goods in road transportation and 2% to 10% in case of rail transportation. This cost is about one dollar per TEU in terms of TEU per kilometer (World Bank Review, 2004). In this view, the flow of 10-15 million tons of Central Asian trade and much more than this from Xinjiang would generate millions of dollars per year for Pakistan in the form of taxes and services (Gwadar Port Master Plan, 2006). Even the services sector of ports has the capacity to generate around \$60 billion a year according to a study of World Bank (World Bank Module Kit, 2006). It is also estimated that large amount of money is expected to be invested by the Asian countries to meet their energy demand. Gwadar port is the gate way to the energy resources of Central Asia. Pakistan has only to create an environment of security to insure the steady flow of energy trade and should make efforts to develop an efficient energy market. On the declaration of free oil port, Gwadar can offer itself as petroleum hub which will not only serve the region but the whole world. Due to its strategic position and proximity to the oil routes, Gwadar port can make the huge reserves of oil and gas available to the energy hungry nations. The facilities provided at Gwadar port and further expansion plans will make Gwadar port to handle huge containers of up to 0.5 million tones dead weight which form a crucial part of the international oil movement (Gwadar Master plan, 2006). Only this activity can generate tremendous money for Pakistan and this is the most important reason of the participation of China in the development of Gwadar deep sea port.

### **Industrialization of the Area**

For the rapid economic growth and to reduce poverty level, the developing nations have to emphasize on industrialization. Beneficial industries should be selected with great care keeping in view the availability of resources, competitive advantages and International and national linkage systems, for taking maximum advantages of the process of globalization. Resource-based and agro-based industries are most desirable industries for developing countries like Pakistan to achieve their target of fast economic growth and poverty reduction. These industries may be food processing, mineral processing, herbal processing, cement & building material, textile & clothing etc. By the development of such industries income generation can be promoted as it will create a lot of job opportunities. This can be further enhanced by creating and promoting special economic zone and export processing zones. Government of Pakistan has finalized a special package of incentive for Gwadar EPZ (Shahid, 2009).

Industrial development is a key lever to accelerate and sustain rapid Gwadar port development. There are many positive examples and role models of rapid port development driven by rapid local industrial and city development. Gwangyang port is one example of successful ports which has relied on local industrial development to kick-start and sustained port development. It is dominated by POSCO's Gwangyang Works Steel Mill (29 million TPY) with direct contribution of about 64% of port traffic. After so many years of its operation it still remains successfully driven by industrial development. Its industrial development also spurred rapid growth of the city, which in turn contributes strongly to port traffic development (Gwadar Master Plan, 2006).

**Table 1 Industrial Development Potentials and Competitive Advantages**

<b>Competitive advantages</b>	<b>Industrial opportunities</b>
Greenfield, low land cost	Land intensive industrial complexes like steel mill
Low labor cost	Labor intensive sectors e.g. textiles
Proximity to oil and gas resources	Oil and gas related processing and downstream industries e.g. petrochemicals
Proximity to fast growing Gulf states	Export industries that meet gulf states import needs e.g. automotive
Proximity to major shipping lanes	Ship services related industries e.g. ship supplies
Some agriculture resources, including coastline	Food processing industries, juice extraction, fish processing, fisheries
Some mineral resources	Mineral processing e.g. Building materials
Short access channels, deep draft, short turnaround time	Industries that require large import/export e.g. oil refineries

By leveraging on a set of competitive advantages, Gwadar has great industrial development potentials and will, in longer term, become an industrial powerhouse, contributing to Pakistan's economy. Gwadar competitive advantages show industrial opportunities in several areas (Gwadar Master Plan, 2006). According to Arthur D Little analysis for the final report on Gwadar master plan- the assessment of the industrial development showed highly promising results. Out of 38 industries the analyst identified 11 priority industries and grouped them into three categories, heavy industries, manufacturing industries and petrochemical industries.

**Table 2 Categories of Industries**

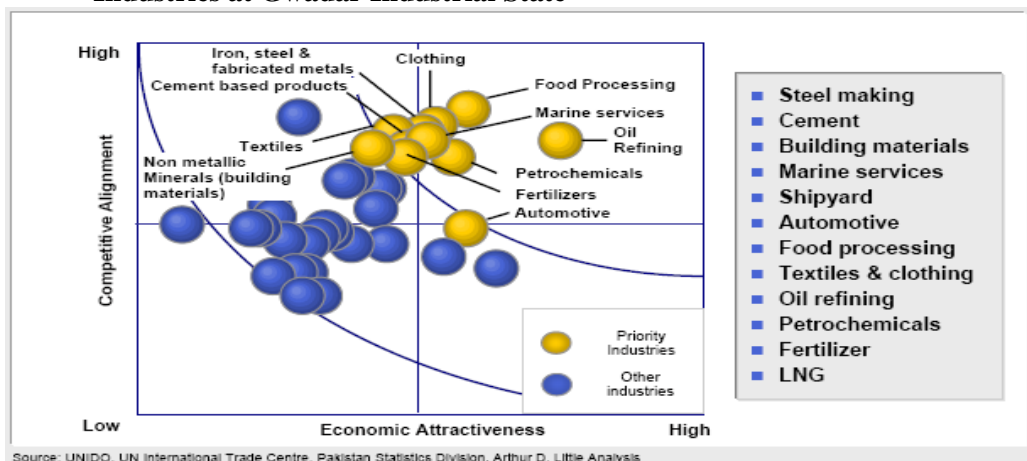
<b>Heavy industries</b>	<b>Manufacturing</b>	<b>Petrochemical</b>
Iron, steel and fabricated metals	Food processing	Oil refining
Cement based products	Textile and Clothing	Petrochemicals
Building material	Automotive*	Fertilizers
Marine services		LNG terminals
Shipyard		
Automotive*		

Source: Gwadar Master Plan, chapter 5, page 14

\*Automotive belongs to both heavy industries and manufacturing industries.

Market potential and feasibility were assessed for each industry, leading to conclusions about development potentials.

### Industries at Gwadar Industrial State



### Gwadar City Development

In the sixteenth century, port cities were planned in the ideal tradition. Designs were created to express ideals about orders and beauty, not to facilitate maritime activity (Konvitz, 1978). The water area was considered as a civic place rather than work place and was incorporated in a holistic urban plan that allowed no changes according to the vagaries of maritime commerce. In 1958 the belief arose that maritime expansion might be achieved through a more pragmatic design of port cities, in which space would be found for the water front activities to expand and at the same time to be integrated with the rest of the city. Josef W. Kovitz (1978) asserts that this policy was most successfully followed by the Dutch. Many port cities have relied on quality infrastructure, city economic development and resource planning to derive their long-term successful growth. The development of the port city is often complemented by foreign investments and an open attitude with liberal policies. Favorable Incentives are instrumental to attract these investors. For better understanding of the development of Gwadar port city few role model port cities can be discussed. Pakistan has to follow the city development of Shenzhen port city, Singapore port city, Dubai port city, Busan port city, Gwangyang port city for their government excellent management of funds, long-term planning and extremely open policies and incentives (Gwadar Master Plan, 2006). Currently the development of an International airport at Gwadar is in progress under the CPEC Project while establishment of Cotton Research Centre in Gwadar is also proposed with the financial and technical assistance of China (The Dawn, 2014).

### China-Pakistan Economic Corridor (CPEC)

In 2013, Nawaz Sharif (Prime minister of Pakistan) and Li Keqiang (Chinese Premier) proposed the current form of the project in Islamabad. On 27<sup>th</sup> August, 2013 CPEC Secretariat was established (the News 28<sup>th</sup> August, 2013). However, the planning for a corridor from western China to Arabian Sea through Pakistan was started in 1959 with the construction of the Karakoram Highway. Pakistan has high expectations from this corridor and hope that it will help in strengthening trade and economic relations of

Pakistan with the countries of the region and beyond, where the primary role will be played by Gwadar port. This corridor is meant to link Kashghar of China with Gwadar of Pakistan through Roads and highways and the rest is ice on cake. So, the core activity is the availability of road connectivity, and the rest of the economic activities are based on it. This road connectivity will make Gwadar fully operational and a significant port of the region. In 2013, the operational control of Gwadar Port was transferred to China's Overseas Ports Holding Company- a state-owned company- and great efforts are undergoing since then to turn Gwadar port into deep water, full-fledged, commercial sea port (South China Morning Post, 2013). On completion of the C-PEC, Gwadar port will serve as a gateway for Xinjiang and central Asian States and as a hub port for Africa and Middle East. It is expected that this corridor will cut the 13,000-kilometre long route via the vulnerable Strait of Malacca through which 80 percent Middle Eastern oil supplies reaches to Eastern Chinese ports (khan, 2013).



Source: <http://www.riazhaq.com/2013/05/how-strategic-are-pakistan-china-ties.html>

### Eastern Alignment

It is decided by the two countries that Eastern alignment of the corridor will be constructed first because the Chinese investors are showing more interest in the eastern alignment as it is safer as compare to western one. This route will pass from very few areas of KPK and Balochistan which are on high threat to terrorism then other provinces (The News, 2013). The starting point of Eastern alignment is Gwadar from where it goes to Karachi through already constructed Makran Coastal Highway, pass through Sindh(interior), and Punjab it reaches Islamabad, From where it goes to Hazara division of KP (Haripur, Abbottabad, and Mansehra districts), it runs through Muzaffar abad, and Khunjrabad after passing through northern Pakistan (Diamer and Gilgit). It will also pass through Karakoram Mountains and Pamir Plateau. This alignment will also be connected to Afghanistan through a link from Peshawar and Torkhum. The corridor will connect India through Wagha border Lahore to Pakistan (The express tribune 15<sup>th</sup> Feb, 2013).

### Western Alignment

After the construction of eastern alignment the western alignment will be constructed which is the original proposed alignment. According to this plan, the corridor starts from Gwadar and runs through Khuzdar and Dera Bugti of Balochistan and some districts in South Punjab to D.I. Khan in KP.



Source: <http://ssbvision.blogspot.com/2015/12/cpec-china-pakistan-economic-corridor.html>

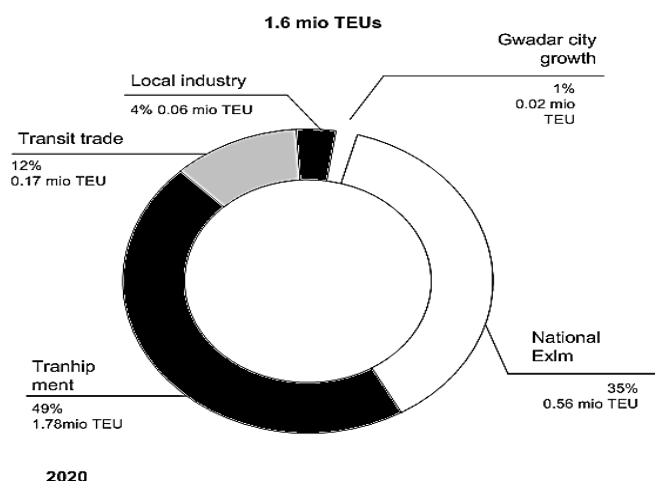
From there to Islamabad and Abbottabad and connects to eastern alignment. Afghanistan will be connected to the corridor through Chaman and Iran through Quetta-Kho-e-Taftan (The express tribune, 15<sup>th</sup> feb., 2013).

It is planned that the mega project of C-PEC will carry special economic zones and Industrial parks with it to minimize energy crises of Pakistan and to build competitive infrastructure. The geography of states and easy access to demand and supply markets are the basic forces to make this energy corridor a success. The concept of making Pakistan as energy corridor is based on its strategically important location. Fortunately by location Pakistan is at the cross roads of energy rich(Middle East, Iran, and Central Asia) and energy hungry nations(India and China).This important location of Pakistan is forcing Middle East, China, India, Iran, Russia, Afghanistan and CARs for trade policy agreements. Being member of SCO, strong trade partner of China and having good ties with Arab countries, Pakistan is emerging as exceptional partner on trade and energy policy matters of the region. China's plan to develop its western regions through the development of infrastructure and opening Xinjiang to the world market through Gwadar port, strongly supports the concept of Pakistan as economic corridor (Takreem, 2013). China's investment capacity and its zeal to complete all the projects in time will have a positive impact on the other regional countries specially CARs. Gwadar Port is located at the mouth of Persian Gulf, at the apex of the Arabian Sea, 400 km east to the Strait of Hormuz from where 80% of oil moves. On materialization this port which is placed at the centre point of energy supply and consumer markets, will benefit the entire region rather the whole world.

The cooperation among the nations of the region in terms of trade and economy would be an ideal scenario for the development of the region through Gwadar port, but the

changing regional dynamics show that an environment of mistrust will remain there which will keep these economies polarized. There will be certainly close relationships between China and Pakistan. Time will tell whether or not the CPEC and Gwadar port could play their roles in the enhancement of regional connectivity and cooperation, though they are specifically designed for this purpose.

### Contribution of Different Sectors to the Container Traffic of Gwadar Port



Source: Author Analysis, 2006

### Conclusion

Port is a source of employment and revenue generation. The economic activities in seaports all over the world clearly show that ports have significant economic impact locally, nationally, regionally and globally. Gwadar port is at initial stage. Trade through Gwadar port can only be estimated in the light of rising international trade and rising need of energy. The same is true for revenue generation. The income of Gwadar port is the only estimation based on the expected flow of trade through Gwadar. It can be suggested on the above estimations that the potentials of Gwadar port are on high track. It can attract large trade volumes, can create millions of jobs and can earn significant amount of revenues. It can be very confidently said that Gwadar port will help to revive the economy of Pakistan.

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