

# Gwadar: China's Future Gateway to the Middle East

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## Abstract

*The China-Pakistan Economic Corridor (CPEC) seeks to develop Pakistan's industrial capacity and contribute to its emergence as a trading hub between China and the Middle East in the long run. The deep-sea seaport of Gwadar in the Arabian Sea will play an instrumental role in this respect due to its proximity with the strategic sea-lanes for global energy trade in the Persian Gulf. This article offers a critical analysis of CPEC's strategic value for Pakistan's economic development and regional connectivity, especially Gwadar's valuable role in this regard. It challenges the prevailing zero-sum narratives on the geopolitics of this strategic port within the context of US-China rivalry, while arguing for its geo-economic importance for China, Central Asia, Pakistan and the Gulf states on the basis of a win-win framework. The discussion ahead covers the key challenges and opportunities concerning CPEC, China's economic profile in Central Asia and the Gulf, and the emerging interest among the Gulf countries for investment in Gwadar. The concluding section focuses on CPEC's significance for China, Pakistan and regional stakeholders and Gwadar's future potential as a regional trading hub and a possible strategic outpost for China.*

**Keywords:** Gwadar, China, Pakistan, Central Asia, Middle East, BRI, SCO, GCC.

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## Introduction

Pakistan and China have always enjoyed a mutually-beneficial strategic relationship which witnessed a major transition from defence to economic collaboration with the conclusion of the Framework Agreement on China-Pakistan Economic Corridor (CPEC) in Beijing in July 2013. The CPEC is a signature project of the Belt and Road Initiative, a global infrastructure development plan that was unveiled by President Xi Jinping during his visit to Kazakhstan and Indonesia in September-October 2013.<sup>1</sup> It has two components, including the Silk Road Economic Belt and the 21st Century Maritime Silk Road comprising of six economic corridors. Two of these corridors, the CPEC and the China-Central-West Asia Economic Corridor lie in the proximity of the Gulf region.

The CPEC is envisioned as a 3,000km infrastructure network comprising roads, railways and pipelines, connecting the Kashgar city in China's south-western province of Xinjiang with the Gwadar port in Pakistan's south-western province of Balochistan. China's interest in Gwadar predates the initiation of the CPEC. In 2001, China agreed to construct the Gwadar port and connect it through a coastal highway with the Karachi port. The project was launched in 2002 and inaugurated in 2007.<sup>2</sup>

The CPEC was formally launched during President Xi Jinping's visit to Islamabad in 2015. Its 1+4 implementation formula identifies CPEC as the core project and the following four areas of cooperation as its components: The Gwadar port, energy, transportation infrastructure and industrial cooperation.<sup>3</sup> The implementation is spread over four phases, including the early harvest (2018), short-term (2020), medium-term (2025) and long-term (2030). The Joint Cooperation Committee (JCC), a ministerial-level body, steers the implementation process by overseeing the working of seven Joint

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<sup>1</sup> Official website of The State Council of the People's Republic of China, [http://english.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm)

<sup>2</sup> Fazal-ur-Rahman, "Pakistan's Evolving Relations with China, Russia and Central Asia," in Iwashita Akihiro, ed., *Eager Eyes Fixed on Eurasia: Russia and its Neighbours in Crisis* (Sapporo, Japan: Slavic Research Centre, Hokkaido University, 2007).

<sup>3</sup> The Ministry of Planning, Development and Special Initiatives, Government of Pakistan, *Long Term Plan for CPEC (2017-2030)*, <https://www.pc.gov.pk/uploads/cpec/LTp.pdf>

Working Groups on Planning, Energy, Transportation Infrastructure, Gwadar Port, Industrial Cooperation, Social Economic Development and International Cooperation.<sup>4</sup> The JCC meets annually to review the previous progress and chalk out the future course of action.

Several energy, transportation and communication projects have so far been completed to bridge the critical gaps in power, physical and digital infrastructure of the country. According to the Chinese estimates, the CPEC has “brought US\$25.4bn in direct Chinese investments to Pakistan, US\$17.55bn in revenue, US\$2.12bn in taxes and more than 192,000 direct jobs.”<sup>5</sup> Some of the CPEC projects are also partially or fully financed under the Public Sector Development Program of the Government of Pakistan.

The consequent outcome of Chinese and local financing for development infrastructure is impressive. In the energy sector, 11 projects of nearly 8,000mw capacity have been completed. Additional three projects of 1,200mw are set to complete during 2024, while three projects of 3,100mw are in the planning stage. In the transportation sector, approximately 888km of motorways and highways have been constructed. Another 853km highway project is under construction.<sup>6</sup> The 27km Orange Line Metro in Lahore has been operational since 2019. A 820km long fibre optic cable connects Rawalpindi city with the strategic Khunjerab Pass on the China-Pakistan border. This Pass has been open to bilateral trade and travel since 2016, excluding the disruption caused by the global pandemic during 2020-22.<sup>7</sup> The CPEC also envisages the establishment of nine Special Economic Zones (SEZs) to stimulate industrial development in Pakistan. Four of them, including Rashakai, Dhabeji, Allama Iqbal Industrial City and Bostana are in the development phase.<sup>8</sup>

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<sup>4</sup> Ministry of Planning, Development and Special Initiatives, The Government of Pakistan, *Long Term Plan for CPEC (2017-2030)*.

<sup>5</sup>“Pak-China Ties are Beyond Reproach,” *Dawn*, March 1, 2023, <https://www.dawn.com/news/1739728>

<sup>6</sup> The Ministry of Planning, Development and Reform, Government of Pakistan, *CPEC Projects Progress Update*, <https://cpec.gov.pk/progress-update>

<sup>7</sup> Khunjerab Pass Opened for Pakistan-China Trade After Three Years, *Associated Press of Pakistan*, April 2, 2023.

<sup>8</sup> Official website of the CPEC Authority, <https://cpec.gov.pk/>

The Gwadar Port is currently in partial operation with China actively involved in multiple initiatives aimed at transforming it into a viable commercial port. These endeavours encompass the development of critical infrastructure such as the Gwadar Eastbay Expressway and the New Gwadar International Airport. China has provided financial support for these projects, extending a US\$140 million interest-free loan for the expressway and a US\$230 million grant for the airport.<sup>9</sup> Additionally, various completed undertakings have laid the groundwork for the port's transformation. These include the establishment of the Gwadar Port and Free Zone, the meticulously planned Gwadar Smart Port City Master Plan and the creation of the Pak-China Technical and Vocational Institute.<sup>10</sup>

The China Overseas Port Holding Company, operating the port under a 40-year lease, has invested US\$250 million for constructing an industrial park. Furthermore, several projects are either currently under construction or in the planning stage. These include the Gwadar Oil Terminal and Petrochemical Complex, a 300mw coal-fired power plant, water desalination facilities, and comprehensive dredging efforts aimed at enhancing the berthing areas and channels within the port.<sup>11</sup> After slowing down during 2019-2021 due to the global pandemic, and political and security challenges in Pakistan, the CPEC resumed the previous momentum in 2022. Its scope has expanded since then to critical areas such as water resources management, climate change, mining, agriculture and business-to-business investments in the energy and industrial sectors.<sup>12</sup>

Some of these projects came under discussion at the 11<sup>th</sup> meeting of the Joint Cooperation Council held in October 2022, where the two countries agreed to chalk out the financial modalities of undertaking the Main Line-1 railway upgradation project from Karachi to Peshawar and

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<sup>9</sup> "China Converts \$230m Loan for Gwadar Airport into Grant," *News International*, September 23, 2015.

<sup>10</sup> Ministry of Planning, Development and Reform, The Government of Pakistan, *Gwadar Projects under CPEC*, <https://cpec.gov.pk/gwadar>

<sup>11</sup> Ministry of Planning, Development and Reform, The Government of Pakistan, *Gwadar Projects under CPEC*

<sup>12</sup> Ahsan Iqbal, "Reviving CPEC: Road to Prosperity," *News International*, November 2, 2022.

the second phase of the Karakoram Highway project.<sup>13</sup> In July 2023, as part of the 10<sup>th</sup> anniversary of the CPEC, China's Vice Premier visited Islamabad to revive the CPEC's second phase. Six new memorandums of understanding were concluded. The two sides agreed to "expand cooperation to new areas, including rural revitalisation, agricultural development, industrialisation, green development and science and technology."<sup>14</sup> In October 2023, the Chinese and Pakistani premiers signed the US\$6.7 worth ML-1 rail-line project on the side-lines of the 10<sup>th</sup> anniversary of the BRI Forum for International Cooperation in Beijing.<sup>15</sup> Since then, political, economic and cultural interactions between the two strategic partners have geared up.

The renewed commitment by China and Pakistan to implement the remainder of CPEC projects must, however, translate into addressing the pending financial and security issues. China has played an important role, besides Saudi Arabia and the UAE, in shoring up Pakistan's foreign exchange reserves at critical moments to avert the financial default and sustain the IMF bailout program in Pakistan. Overtime, the Government of Pakistan has also been forthcoming in resolving the issue of pending payments to Chinese Independent Power Producers. It is, however, on the security front that the two countries need to collaborate closely, given the resurgence of cross-border terrorism since the U.S. exit from Afghanistan in 2021. The Chinese workers engaged in CPEC projects and teachers associated with Confucius Institutes have become a victim of this terrorist wave. It is equally crucial to overcome the cultural and knowledge lag between China and Pakistan by fostering people-to-people interactions, for smooth transition in strategic relations from security-centric cooperation to economically-driven partnership.

For far too long, CPEC's portrayal as a 'game changer' has been in stark contrast with the challenging ground realities in Pakistan. It is, therefore, important to understand the CPEC-led infrastructure development for what it is: a means to an end. For the energy, transportation and

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<sup>13</sup> Mehtab Haider, "Pakistan, China Agree to Execute \$10bn ML-1 Project," *News International*, October 28, 2022.

<sup>14</sup> Kamran Yusuf, "Pakistan, China Revive CPEC Phase II," *Express Tribune*, August 1, 2023.

<sup>15</sup> Mian Abrar, "China, Pakistan Sign Multibillion Dollar ML-1 Project," *Pakistan Today*, October 18, 2023.

communication projects are meant to facilitate industrial and agricultural productivity, boost value-added exports and contribute to the economic growth of the country. The SEZs, in particular, have suffered a serious lack of progress. Learning from their vital role in China's industrial development, the Government of Pakistan needs to expedite the work on four SEZs in the first phase and complete the remaining ones in the next phase. Furthermore, ensuring policy continuity amid political transitions — and resuming cultural relations to promote mutual understanding, by revitalising the Confucius Institutes and Pakistan Studies Centres in Pakistan and China, respectively — will be vital. Practical cooperation also needs to expand to critical areas such as renewable energy. As China transitions to green energy, it can also help Pakistan to implement its ambitious solar power programme aimed at generating 10,000mw of electricity. The Chinese companies have also expressed interest to invest in this project.<sup>16</sup>

Ultimately, the development of energy, transportation and communication networks in Pakistan under CPEC should serve two lasting goals: First, to enhance Pakistan's industrial productivity and export potential. Secondly, to position the country as the hub of economic integration and trade connectivity between China, Central and Southwest Asia, the Gulf, and the Middle East. The Gwadar port could act as a gateway for this trans-regionalism, as its real value lies in serving as an engine of win-win cooperation between the established and emerging economies of these vast regions.

## **China in Central Asia**

China's economic influence is most pronounced in Central Asia, where it presides over the Shanghai Cooperation Organization (SCO). Formed in 2001 as the successor to the Shanghai Five, the SCO represents the largest regional organization in Central Asia, encompassing “approximately 40% of the global population and 30% of the world's economic output.”<sup>17</sup> The SCO includes “eight member nations (China,

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<sup>16</sup> “Chinese Companies Accept Offer to Invest in Solar Projects,” *Associated Press of Pakistan*, November 23, 2022.

<sup>17</sup> Ishtiaq Ahmad, “Why the Shanghai Cooperation Organization Matters,” *Arab News*, August 21, 2022.

Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, India, and Pakistan), four observer nations (Afghanistan, Belarus, Iran, and Mongolia), and six dialogue partners (Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka, Turkey, Egypt, Qatar, and Saudi Arabia).”<sup>18</sup>

Pakistan was granted the SCO membership in 2017, and Iran joined it in 2023. Egypt, Qatar, and Saudi Arabia were accorded dialogue partner status at the 2022 SCO summit in Samarkand. Saudi Arabia formally became a dialogue partner in March 2023, and there is a marked aspiration for the SCO membership amongst the UAE, Kuwait, Bahrain and numerous Eurasian nations.<sup>19</sup>

China's preeminent position in Central Asia is reflected by its extensive investments in energy and infrastructure development projects under the BRI. Until 2021, China had invested US\$85 billion and contracted further energy and transportation projects valued at US\$280 billion in other member states. Since the unveiling of the BRI in particular and the inception of the SCO in general, China has also deepened trade partnerships with other SCO member states, especially the Central Asian Republics. Trade between China and other SCO member nations escalated twentyfold from 2001 to 2020, reaching a pinnacle of US\$245 billion in 2020, a stark increase from the US\$12 billion figure in 2001. By the culmination of 2022, China's trade turnover with Central Asian nations reached US\$70.2 billion, representing an approximately 40% increase compared to 2021, or an astounding hundredfold growth over the three decades since the establishment of diplomatic relations.<sup>20</sup>

The development of transportation networks, energy pipelines and trade partnerships not only enhances China's economic interests but also fosters regional stability and prosperity. One of China's primary contributions to enhancing connectivity in Central Asia lies in the development of transportation networks. Chinese investments in road and rail infrastructure have facilitated smoother movement of goods and people within and

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<sup>18</sup> Official website of the SCO: <http://eng.sectsco.org/>

<sup>19</sup> Official website of the SCO: <http://eng.sectsco.org/>

<sup>20</sup> Official website of the SCO: <http://eng.sectsco.org/>; “Trade between China and Central Asia Exceeded US\$70 billion and Investments Near US\$1 Billion,” *News Central Asia*, February 19, 2023.

beyond Central Asia. The China-Central Asia-West Asia Corridor links China to the Caspian Sea and beyond, and includes the planned construction of the cross-Caspian Sea international transport corridor.<sup>21</sup>

China's quest for energy security has driven substantial investments in the development of energy pipelines in Central Asia. Central Asian countries, endowed with significant oil and gas reserves, have become key partners in China's strategy to diversify its sources of energy. Projects like the China-Central Asia Gas Pipeline have strengthened energy ties between China and Central Asian nations.<sup>22</sup> These projects not only provide China with a stable and diversified energy supply but also offer Central Asian countries a reliable market for their energy resources.

China's investments in trade infrastructure have played a pivotal role in facilitating cross-border trade in Central Asia. Development of border crossings, customs facilities, and logistical hubs has streamlined the movement of goods, reducing transportation costs and transit times. The Khorgos Gateway, a major dry port on the China-Kazakhstan border, exemplifies China's commitment to enhancing trade infrastructure in the region.<sup>23</sup> The development of these trade routes has not only boosted economic exchanges between China and Central Asian nations but has also stimulated intra-regional trade among Central Asian countries. By fostering an environment conducive to trade, China contributes to the economic development of Central Asia, creating a win-win scenario for all of its constituent states.

China and Russia do have competing interests in the SCO regarding trade and development versus energy and security, respectively. But both great powers seek to create a Greater Eurasian Partnership. This strategic goal is to be achieved by synchronising developmental activities with integration projects in Eurasia, inclusive of China's Silk Road Economic Belt and Russia's Eurasian Economic Union.

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<sup>21</sup> "China Supports Building Cross-Caspian Sea Transport Corridor: Xi," *Xinhua*, May 19, 2023.

<sup>22</sup> "China-Central Asia Natural Gas Pipeline Fostering a Shared Future," *Xinhua*, August 24, 2023.

<sup>23</sup> "Asia's Cargo Industry: Khorgos Gateway Links China to Kazakhstan, a Major Trading Point Along the Route," *CGTN*, May 17, 2023.



China's pivotal role in Central Asia must be understood within the BRI's quest for transregional connectivity and integration with Pakistan and Iran in Southwest Asia and the Gulf states of the Middle East. Since the independence of Central Asian states after the Soviet collapse in 1991, Pakistan has sought to deepen political, economic and cultural links in Central Asia. The SCO membership serves its current foreign policy pivot to geoeconomics, which entails fostering investment and trade relations with China, Central Asia and the Cooperation Council for the Arab States of the Gulf (GCC) states. This is where the role of Gwadar as a potential gateway for China in the Middle East gains crucial value.

The economic integration with China and Central Asia, whether through direct trade and investment ties or within the SCO framework, aligns well with the strategic interests of the Gulf nations. With Pakistan already an SCO member, Iran gaining this status in 2023, and normalised relations between Iran and Saudi Arabia, the process of transregional integration is likely to accelerate. While China's expanding economic role in the Gulf and the Middle East is poised to be a significant catalyst in this regard, the significance of Gwadar port for transregional connectivity and integration between China, Central Asia and the Arabian Gulf can hardly be overlooked.

## **China in the Middle East**

The geographical positioning of the Middle East, as a conduit of crucial land and maritime conduits, makes it of paramount importance for Eurasian connectivity. Before BRI's launch in 2013, China's engagement in the region was confined to energy trade. Since then, it has diversified significantly into multiple strategic sectors, including, but not limited to, renewable energy, industrial infrastructure and nascent technologies. As of 2022, Chinese entities, both state-owned and private, had invested an approximate total of US\$273 billion into development projects in the Middle East and North Africa region.<sup>24</sup>

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<sup>24</sup> US House of Representatives, Foreign Affairs Committee, Congress, *China Regional Snapshot: Middle East and North Africa* (Washington, DC: Congressional Research Service), <https://foreignaffairs.house.gov/china-regional-snapshot-middle-east-and-north->

Since 2004, the China-Arab States Cooperation Forum has acted as the principal regional mechanism for economic cooperation between China and the Arab League. It is noteworthy that during President Xi's initial visit to the Middle East in 2016, a commitment was made by China to invest US\$23 billion into a multitude of infrastructural, humanitarian, and social projects in Arab states.<sup>25</sup> In the same year, the Arab Policy Paper was released, outlining a plan to expand and diversify China-Arab cooperation following a 1+2+3 paradigm, with energy cooperation as the nucleus, infrastructural development and trade and investment facilitation as the wings, and cooperation in nuclear energy, new and clean energy, and aerospace as the three breakthrough points.<sup>26</sup>

The BRI constitutes the overarching framework for this cooperation. A comprehensive agreement for cooperation and common development was signed between China and the Arab League in 2018. This resulted in a series of significant development plans, encompassing the construction of industrial parks in Oman, Saudi Arabia, Egypt and the UAE. These parks are intended to be connected with regional ports in Djibouti, the UAE and Egypt to foster business clusters and increase trade flows, while simultaneously enhancing cooperation in oil, gas, low-carbon energy, science, technology and finance.<sup>27</sup>

The BRI presents a mutually advantageous opportunity for China, and the Gulf and Middle Eastern countries. It serves as a significant source of development finance for the struggling Arab economies such as Egypt and Jordan. Wealthy Gulf states, including Saudi Arabia, are seeking to diversify their economies away from oil-centric models via national vision programs, perceiving China as an exemplar for infrastructural and industrial development. China also provides a better

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africa/#:~:text=From%202005%20to%202022%20PRC,the%20MENAT%20total%20%2024273%20billion

<sup>25</sup> Jonathan Fulton, "For China, the Belt and Road Runs Through the Middle East," *South China Morning Post*, July 14, 2018.

<sup>26</sup> China's Arab Policy Paper, [http://english.www.gov.cn/archive/publications/2016/01/13/content\\_281475271412746.htm](http://english.www.gov.cn/archive/publications/2016/01/13/content_281475271412746.htm)

<sup>27</sup> Fulton, "For China, the Belt and Road Runs Through the Middle East."

alternative to develop their critical infrastructure, such as Huawei's 5G cellular network to shore up digital connectivity.<sup>28</sup>

Access to essential energy resources and maritime trade routes, alongside key seaports like Dubai, through which 60% of China's trade destined for Europe and East Africa passes,<sup>29</sup> constitute some of the primary drivers of China's interest in the Gulf. China is the largest trading partner for the GCC and has made considerable investments in Saudi Arabia, the UAE, Kuwait, Bahrain, and Oman. In 2022, a significant US\$60 billion agreement was signed for the purchase of liquefied natural gas from Qatar over the forthcoming three decades.<sup>30</sup> China is also the largest trading partner and crude oil customer of Saudi Arabia.

In 2021, China took 27% of Saudi oil exports. Their annual bilateral trade volume was worth US\$87.3 billion at the end of 2021. The Saudi-Chinese strategic partnership began with President Xi's visit to Riyadh in 2016. Saudi Crown Prince Mohammed bin Salman responded by visiting Beijing later in the year, followed by King Salman bin Abdulaziz in 2017.<sup>31</sup> Saudi Arabia is also the largest recipient of Chinese investments. It received nearly US\$43.5 billion between 2005 and 2021. These investments are being dispersed across critical sectors such as seaport and transportation facility development, industrial complexes, 5G networks, artificial intelligence, emerging technologies and renewable energy.<sup>32</sup>

In recent years, Central Asia has emerged as strategic region in the GCC's push to diversify global economic linkages. The Gulf states have sought bilateral free trade agreements with China and the Central Asian republics albeit with limited success. Their economic involvement in Central Asia and the Caucasus, despite shared hydrocarbon wealth, remains minimal. As such, in addition to the current efforts to join the SCO, the Gulf

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<sup>28</sup> Ishtiaq Ahmad, "China's Growing Footprint Bodes Well for the Middle East," *Arab News*, May 18, 2022.

<sup>29</sup> Talmiz Ahmad, "China's Belt and Road Initiative Embraces the Middle East," *Arab News*, April 19, 2019.

<sup>30</sup> Andrew Mills & Maha Al Dahan, "Qatar Seals 27-Year LNG Deal with China as Competition Heats up," *Reuters*, November 22, 2022.

<sup>31</sup> "Fusing Vision 2030 with Belt Road Initiative," *Arab News*, September 3, 2016.

<sup>32</sup> "Factbox: Saudi-China Energy, Trade and Investment Ties," *Reuters*, December 6, 2022.

countries have accelerated the finalisation of a free trade agreement with China within the framework of the China-GCC Strategic Dialogue. This strategy is supported by the rapid annual increase in China-GCC trade which expanded by 44% in 2022.<sup>33</sup>

In December 2022, President Xi undertook a historic visit to Saudi Arabia, renewing the comprehensive strategic framework agreement. This visit resulted in “the signing of 34 investment deals across sectors like green energy, green hydrogen, photovoltaic energy, information technology, cloud services, transportation and logistics.”<sup>34</sup> The Chinese leader also attended summits with GCC and Arab leaders, proposing a “five-pronged plan for strengthening China-GCC relations in the next three to five years,”<sup>35</sup> and hailing the “historic leap in Chinese-Arab relations for benefitting the two peoples and stabilising the region and the world.”<sup>36</sup>

In recent years, China has surfaced as a lucrative investment destination for Saudi Arabia and other Gulf states as their national vision programs underscore the importance of diversifying global investments through sovereign wealth funds such as the Saudi Public Investment Fund worth US\$700 billion as of September 2023.<sup>37</sup> Saudi Arabia has signed or planned contracts worth US\$35 billion in Chinese refinery and petrochemical projects, including a significant deal solidified in 2022 between Saudi Aramco and China’s Sinopec for collaboration on carbon capture and hydrogen technologies. In March 2023, Saudi Aramco signed two contracts, worth US\$3.6 billion in total, with Chinese partners North Huajin Chemical and Panjin Xincheng to construct a state-of-the-art refinery and petrochemical complex in Liaoning province in north-eastern China.<sup>38</sup>

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<sup>33</sup> Zhand Yunbi, “China-Gulf States Free Trade Pact High on Agenda,” *China Daily*, February 1, 2023.

<sup>34</sup> “China, Saudi Arabia Issue Joint Statement, *Xinhua*, December 10, 2022.

<sup>35</sup> “China-GCC Relations Elevated to New Level as First China-GCC Summit Held in Riyadh,” *CGTN*, December 10, 2022.

<sup>36</sup> Jennifer Bell, “Chinese President Xi Says Chinese-Arab Relations Have Achieved Historic Leap,” *Al-Arabiya News*, December 10, 2022.

<sup>37</sup> George Hay and Karen Kwok, “Saudi’s US\$700 Billion PIF is an Odd Sort of Sovereign Fund,” *Reuters*, September 21, 2023.

<sup>38</sup> Alfred Cang & Matthew Martin, “Saudi Aramco Deepens China Push with US\$3.6 Billion Refinery Deal,” *Bloomberg*, March 27, 2023.

China is in favour of regional reconciliation and conflict resolution in the Middle East, and does not want the important gains made in this respect to be spoiled by the recent eruption of the violent conflict over Palestine. In March 2023, the Chinese leadership facilitated a diplomatic breakthrough between Saudi Arabia and Iran in which senior officials from both countries agreed to re-establish diplomatic relations.<sup>39</sup> This diplomatic normalisation has the potential to align China's BRI investments in the Gulf with the Iran-China 25-year Comprehensive Cooperation Agreement involving Chinese investments worth US\$420, signed in 2019, and may also prompt the Gulf nations to increase their investments in projects under the CPEC, particularly in Gwadar, and facilitate its extension to Iran.

### **GCC Interest in CPEC**

The interest of oil-rich Gulf nations in CPEC, in general, and Gwadar, in particular, is relatively recent. Gwadar's geographical proximity to the Arabian Gulf is clear from the fact that it belonged to Oman till the 1950s. However, its current significance for the GCC countries, especially Saudi Arabia, the UAE and Qatar, emanates from two concurrent factors: the rise of China as the principal trader and investor in the Gulf states, and the latter's aspiration for economic integration via diversified trade and investment links with China and Central Asia.

Initially, the UAE saw Gwadar as a potential strategic rival to its commercial ports in Dubai, Port Jebel Ali and Port Rashid, which presently function as trading epicentres between Asia, Africa and Europe. Nonetheless, the consistent progression of CPEC, the expansion of BRI investments in the UAE, and Saudi Arabia's interest in investing in Gwadar have contributed to mitigating these concerns. As a close ally of the Gulf nations, Pakistan prioritises their investments in CPEC, particularly Gwadar.<sup>40</sup> The GCC countries are looking for opportunities

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<sup>39</sup> "Joint Statement Issued Following Discussions by Saudi, Iranian Foreign Ministers in Beijing," *Saudi Press Agency*, April 6, 2023; William Figueroa, *Iran-Saudi Normalisation: A Regional Process with Chinese Characteristics* (Washington, DC: Foreign Policy Research Institute, March 24, 2023).

<sup>40</sup> Aamir Shah, "Pakistan to Lures in GCC Investors for CPEC," *Arab News*, September 17, 2018.

for diversifying their investment portfolios under the respective national vision programmes.<sup>41</sup> The Saudi Vision 2030, in particular, aligns well with CPEC's long-term plans.

The CPEC's long-term plan accentuates the importance of private and international investment for industrial and commercial activities in Gwadar, including various investment and tax incentives in the economic zones. In 2018, after consultation with China, Pakistan extended an invitation to Gulf governments and companies to invest in CPEC.<sup>42</sup> Saudi Arabia was the first to respond.

In 2019, during his debut visit to Islamabad, Saudi Crown Prince Mohammed bin Salman pledged investments amounting to US\$20 billion, including a US\$10 billion Aramco oil refinery and petrochemical complex in Gwadar, and the potential acquisition of two liquified natural gas-powered power plants and nearly US\$4 billion in renewable energy and mining deals.<sup>43</sup> However, these investments failed to materialise due to political issues in Pakistan. In 2021, the relocation of the proposed oil refinery and petrochemical complex to Karachi was reported,<sup>44</sup> though the project was revived by Saudi Arabia in October 2022.<sup>45</sup>

Simultaneously, the UAE government has promoted Emirati business investments in CPEC projects. It is committed to the US\$5 billion Khalifa Coastal Refinery Project along the Balochistan coastline as a joint venture with the Pakistan government. In 2022, the UAE also declared its intention to invest US\$1 billion in Special Economies Zones in sectors such as renewable energy, corporate agriculture and

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<sup>41</sup> Adam Garrie, "Pompeo Could Not Bring the GCC Together, But CPEC Can," *Eurasia Future*, January 16, 2019.

<sup>42</sup> Aamir Shah, "Pakistan to Rope in GCC Investors for CPEC," *Arab News*, September 17, 2018.

<sup>43</sup> Salman Masood & Abi-Habib, "Saudi Crown Prince Promises US\$20 Billion in Investments for Pakistan," *New York Times*, February 18, 2019.

<sup>44</sup> Adnan Aamir, "Pakistan's Gwadar Loses Lustre as Saudis Shift US\$10bn Deal to Karachi," *Nikkei Asia*, June 13, 2021.

<sup>45</sup> Zafar Bhutta, "Riyadh Renews US\$10b Refinery Project," *Express Tribune*, October 25, 2022.

telecommunications.<sup>46</sup> In addition, the Qatar Investment Authority has pledged to invest US\$3 billion to develop food storage facilities and other projects in Gwadar.<sup>47</sup> Besides their growing interest in these strategic investments, Saudi Arabia, the UAE and Qatar also continue to provide emergency financial support to Pakistan like China.

The Government of Pakistan has established the Special Investment Facilitation Council (SIFC) to tap GCC investments in energy, agriculture, mining, minerals and defence production sectors. The SIFC will act as a one-window facility for foreign investment from the Gulf, China and other friendly states, overcoming procedural bottlenecks that have dissuaded foreign investment for long. The SIFC has approved 28 projects that would be offered to the GCC for investment, “including the construction of Diamer-Bhasha dam and mining operations at Reko Diq in Balochistan’s Chagai district.”<sup>48</sup> The response from the GCC has been encouraging. This is particularly clear from the investment pledges made by Saudi Arabia and the UAE over and above their previous commitments to invest in CPEC-related development projects.

Iran has surfaced as a potential participant in CPEC since its plan with India to develop Chabahar port in the Gulf of Oman fell apart in 2020, with New Delhi succumbing to the U.S. pressure. Since then, Iran has expressed interest in connecting Chabahar to Gwadar via a highway and natural gas pipeline.<sup>49</sup> Under an agreement signed in 1995, the gas pipeline is planned to reach the Karachi port from Iran’s South Pars gas field. Iran is Pakistan’s immediate neighbour, but Saudi Arabia its closest ally. The Saudi-Iran conflict has long restrained Pakistan from deepening political and economic ties with Iran for fear of annoying Saudi Arabia.

In light of this, the normalisation of Saudi-Iran relations opens up an opportunity for Pakistan to not only overcome the current impediments

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<sup>46</sup> See “UAE to Invest \$1 Billion in Pakistani Companies — State News Agency,” *Reuters*, August 5, 2022; Sib Kaifee, “UAE Seeking Investment Avenues in Multibillion China-Pakistan Economic Corridor,” *Arab News*, September 19, 2019.

<sup>47</sup> “Qatar Aims to Invest US\$3 Billion in Pakistan,” *Gulf News*, August 24, 2022.

<sup>48</sup> Shahbaz Rana, “Pakistan Opens Gates for Gulf Investment,” *Express Tribune*, July 29, 2023.

<sup>49</sup> Muhammad Tayyab Safdar and Joshua Zabin, “What Does the China-Iran Deal Mean for the China-Pakistan Economic Corridor?” *The Diplomat*, August 14, 2020.

in relations with Iran but also to involve Iran in CPEC via the proposed connection from Chabahar to Gwadar. As Turkey and Iran develop closer ties with the GCC states, the China-Central-West Asia Economic Corridor could potentially promote economic integration and trade connectivity between the Gulf, China and Central Asia. This corridor also complements the CPEC, in line with China's ascendance as a centre of gravity for transregional economic integration and trade connectivity in Centra Asia, Southwest Asia, the Gulf and the Middle East.

### **A Win-Win Proposition**

The preceding discussion qualifies CPEC as a win-win proposition for China and Pakistan as well as the countries of Centra Asia, Southwest Asia, the Gulf and the Middle East. Their economic interests not only converge over this project but also reinforce each other. If implemented smoothly until 2030, the CPEC, with Gwadar as its hub, could enable Pakistan to emerge as a conduit of trade and economic relations between these vast and resource-rich regions. This would provide tangible benefits to the Gulf and the Middle Eastern countries, Iran, Afghanistan, Central Asian republics and above all, China.

First, the CPEC has already helped Pakistan to overcome its acute energy needs and develop the basis of a modern transportation and telecommunication network. The renovation of Karakoram Highway has, in particular, facilitated bilateral trade and travel links. However, the real value of CPEC in terms of economic development and regional connectivity lies in its future potential.

Once completed, the SEZs will spur industrial and agricultural productivity, generate employment and improve livelihood. The development of ML-1 railway between Karachi and Rawalpindi, and its planned extension to Kashgar through Karakoram will boost Pakistan's trade and economic relations with China, Central Asia, the Gulf and the Middle East. The investments by China and Gulf nations in the refinery and petrochemical complex projects, and the planned development of pipelines and railways till Kashgar could turn Gwadar into a hub of energy trade between China and the Gulf. A feasibility study on a



railway project with an estimated cost of US\$58bn was also recently reported.<sup>50</sup>

Second, for the Gulf and the Middle Eastern states, investing in CPEC entails significant gains. Diversification of trade and investment links with China, Central and South Asia is an important component of the Saudi Vision 2030 and other national vision programs in the Gulf. This is manifested in their current investment interests in Gwadar and SEZs. Saudi Arabia and other Gulf states have close political and cultural relations with Pakistan, but these are not commensurate with limited trade ties. The future development of Gwadar and SEZs is, hence, in perfect accord with their mutual interest to enhance bilateral trade.

The CPEC also serves the growing aspirations of the Gulf and the Middle Eastern countries for economically integrating with Central Asia through joining the SCO, of which Pakistan is already a member. The oil-rich Gulf nations have a particular stake in fostering trade and investment relations with China. China is the largest importer of crude oil and natural gas from the GCC region. The Saudi Vision also seeks to increase the volume of non-oil exports to China. Gwadar's potential emergence as a trading hub serves these economic ends.

Third, recent developments in regional geopolitics are also conducive for involving the two Southwest Asian states, Iran and Afghanistan, in CPEC. Iran has already completed a natural gas pipeline to the Pakistan border, but the portion in Pakistan was not constructed due to pressure from the U.S. and Saudi Arabia.<sup>51</sup> The Saudi-Iran normalisation relieves Pakistan from the Saudi pressure. Further consolidation of China-Saudi-Iran economic relations could encourage Pakistan to construct the pipeline despite the U.S. sanctions. Gwadar lies in close proximity with the Iranian border (84km) and Chabahar (170km by sea and 370km by road). China is a major consumer of Iran's energy exports. Besides the current sea link the development of gas pipeline and proposed highway between the two ports would enable Iran to export its oil and gas to China through CPEC.

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<sup>50</sup> Stephen Chen, "China-Pakistan Railway Worth It' at Estimated US\$58 billion: Study," *South China Morning Post*, April 27, 2023.

<sup>51</sup> Chen, "China-Pakistan Railway Worth It' at Estimated US\$58 billion: Study."

Both China and Pakistan support the extension of CPEC to Afghanistan. A trilateral dialogue forum exists to translate this mutual aspiration into reality. Being a landlocked state, Afghanistan depends on transit trade through Pakistan. Since the end of war and the US exit from Afghanistan in 2021, China and Pakistan have sought to deepen economic relations with the Taliban regime. China has increased investments in the Afghan mining and energy sectors. However, the persisting problem of terrorism remains a key barrier to extending CPEC to Afghanistan. Only a collaborative effort can resolve this serious issue, which was the focus of the fifth round of the China-Pakistan-Afghanistan Trilateral Dialogue in Islamabad in March 2023.

Fourth, the CPEC raises the prospect of Central Asia's economic integration with South Asia which has remained a pipedream for both Pakistan and the Central Asian republics due to successive rounds of warfare in Afghanistan in the past three decades. For instance, the Turkmenistan-Afghanistan-Pakistan-India pipeline agreement has remained hostage to this factor since 2010. However, there is a glimmer of light: the BRI has connected China with Central Asia so extensively that CPEC can potentially provide the Central Asian republics an alternative trade route to the Gulf and the Middle East.

The South Asian region can likewise benefit from CPEC's integrative potential, if a headway is made to resolve the lingering India-Pakistan conflict over Kashmir and other bilateral issues. SCO membership of the two countries could help, but their peace prospect hinges on the resolution of India's border disputes with China and its willingness to exit the U.S. policy to contain Chinese influence in the Asia-Pacific region. If this happens, the gas pipelines from Turkmenistan and Iran could be extended to India, meeting their long-cherished aspiration.

Ultimately, it is China that expects to accrue optimal strategic benefits from CPEC. That is why its commitment to the project has not wavered, despite opposition from the US and India or political and security issues in Pakistan. China and Pakistan have shown the necessary resilience to overcome these issues, although the resurgence of terrorist threat has disrupted their widening cultural ties. A decade on, there is renewed realisation in Pakistan about the future vitality of CPEC in addressing its persisting economic woes.

China's consistent pursuit of BRI with the GCC and Iran, and its historic role in normalising Saudi-Iran relations also significantly constrain the Indo-US ambitions against CPEC and BRI. These factors, coupled with the growing Gulf interest in CPEC, raise the hope for achieving its intended targets by 2030 especially in Gwadar.

## **Gwadar Gateway**

The Gwadar port, located in close proximity to the Persian Gulf and Dubai ports, holds immense significance for China due to its potential benefits in terms of energy imports and trade facilitation.<sup>52</sup> The port could provide China with a more economical access to energy imports from the Gulf and trade in goods to and from Dubai ports. It could also serve as an alternative to China's eastern sea route for trade in energy and goods. However, its future military significance is tied to China's emerging rivalry with the U.S. in the Asia-Pacific region.

First, the Gwadar port presents China with a cost-effective and expedient means of accessing natural gas and crude oil from the Gulf, which can be transported to China through the CPEC. This infrastructure development aligns with China's Western China Development Strategy promoting the relocation of energy-intensive industries to western regions.<sup>53</sup> Moreover, the crude oil from the Gulf and Iran could be processed at the oil facilities in Gwadar for onward supply to China through CPEC enabling Pakistan to receive energy share and revenue from regional trade.

Second, the Gwadar port could serve as a pivotal transit and transshipment hub, facilitating China's trade in goods with the Middle East, Africa and Europe. By significantly reducing the distance between western China and Dubai ports, the CPEC would enhance the transportation efficiency of goods produced in China's western provinces.<sup>54</sup> The Gwadar port could also supplement Dubai's role as a

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<sup>52</sup> Sajjad Ashraf, "Gwadar Will be the Economic Funnel for the Region," *Gulf News*, May 24, 2017.

<sup>53</sup> Nader Habibi and Hans Yue Zhu, "What CPEC Means for China's Middle East Relations," *The Diplomat*, January 22, 2020.

<sup>54</sup> Ashraf, "Gwadar Will be the Economic Funnel for the Region."

port services provider, particularly for smaller vessels transporting Chinese products to the Middle East, Africa and Europe.<sup>55</sup>

Third, the Gwadar port holds the potential to address China's concerns regarding the "Malacca dilemma." The current route for Gulf oil to reach eastern Chinese ports via this strait poses risks due to potential chokepoints. Gwadar provides an alternative route for energy supplies, albeit at a higher cost, in the event of a future conflict in the Asia-Pacific.<sup>56</sup>

The perspectives that exaggerate Gwadar port's geopolitical or military value for China,<sup>57</sup> within the context of the U.S.-China rivalry, often fail to consider the underlying economic rationale behind the CPEC. They also overlook the multifaceted dynamics of China's economic engagements and developmental pursuits in Central Asia and the Middle East. Gwadar's transregional connectivity potential is evident from China's expanding economic role in Central Asia, the Gulf and the Middle East, as well as the Gulf nations' interest in strengthening trade and investment relations with Pakistan, China and Central Asia. Therefore, the establishment of a network of transregional economic connections facilitated by the CPEC, particularly the Gwadar port's future role as China's gateway to the Middle East, is the noteworthy narrative that deserves attention.

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<sup>55</sup> Ashraf, "Gwadar Will be the Economic Funnel for the Region."

<sup>56</sup> Former Chinese President Hu Jintao first referred to "Malacca Dilemma" in a November 2003 statement referring to the challenge facing China due to the lack of alternatives and vulnerability to a naval blockade of this Strait. See Paweł Paszak, "China and the 'Malacca Dilemma,'" *China Monitor*, February 28, 2021, <https://warsawinstitute.org/china-malacca-dilemma>

<sup>57</sup> In fact, Gwadar's portrayal in hostile context predates the launch of CPEC. See, for instance, Christophe Jaffrelot, "A Tale of Two Ports, *Yale Global Online*, January 7, 2011, <https://archive-yaleglobal.yale.edu/content/tale-two-ports>. Also see Rajeswari Pillai Rajgopalan, *A New China Military Base in Pakistan?* (New Delhi: Observer Research Foundation, February 9, 2018).