



### GWADAR PORT OPENS UP FOR TRANSIT TRADE WITH AFGHANISTAN

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*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



The first economic success of more than US \$46 billion China-Pakistan Economic Corridor(CPEC) in general, and of Afghanistan-Pakistan Transit Trade Agreement (APTTA)in particular, materialized after a cargo ship named “*Diyala*” carrying a consignment for Afghanistan landed on the shores of Gwadar – a deep sea port south-west of Pakistan in the Balochistan province on January 14, 2020.<sup>1</sup> The trucks at Gwadar loaded with the chemical fertilizers and transported via the border crossing at Chaman into Afghanistan marks the first operational use of Gwadar Port for trade activities – a major success for Pakistan as well as China.

Previously, under the trade agreement, the ports of Karachi and Qasim were used to transit goods to landlocked Afghanistan. Gwadar had been slow down for last two years. Frequent threats by Baloch insurgents, bureaucratic hurdles and other governance issues in Pakistan, had halted the progress of Gwadar Port being operational. However, its use in Afghan transit trade is seen as a beginning of the economic revival of the project in three major ways.

Firstly, the Chinese investment of US \$250 million directly on construction of the port will finally start paying off through the revenues generated from such transit trade. According to the agreement signed between China and Pakistan in April 2017, China Overseas Ports Holding Company

<sup>1</sup> Ali Ahmad, ‘Gwadar port begins handling Afghan transit trade’, *Business Recorder*, 15 January 2020.

(COPHC) will get 91% of the revenues for the next 40 years.<sup>2</sup> The revenue from Afghan transit trade thus initiates the process of such revenue generation.

Secondly, China is eager to extend CPEC to Afghanistan and Central Asian States (CAR's). A stable and peaceful Afghanistan is in China and Pakistan's best interest as more peace will bring more trade and greater activity at Gwadar port, thus generating more revenues for China and Pakistan. Through this consignment of transit trade, Gwadar port is likely to bring Afghanistan into CPEC which will boost the regional connectivity with CAR's and development.

Thirdly, the halting of the Indian-sponsored Chabahar Port in Iran following fresh United States sanctions on Iran and with Afghanistan now appearing to prefer Gwadar over Chabahar provides a beacon of hope for greater volume of future Afghan transit trade through Gwadar.

Although it is a step in the right direction, but there remain many challenges that need to be addressed to gain maximum benefit out of such a setting. A long-lasting peace in and uninterrupted supplies to Afghanistan needs to be ensured to reap any major financial benefit out of such an arrangement. There is a dire need to convince Afghanistan through diplomatic efforts and by other means that trade through Gwadar remains most viable option for the country, reducing transportation cost, thereby reducing overall import costs for Afghanistan. India might redouble its efforts to build on Chabahar Port which needs to be dealt with effectively by both China and Pakistan. As Michael Kugelman rightly states: "Certainly, [the Chabahar] project faces financial constraints in that Gwadar does not, but there's too much at stake for Kabul, New Delhi and Tehran to simply throw towel."<sup>3</sup>

Afghan transit shipment can be a major source of revenue, but it is not enough to pay off Chinese massive investment in the CPEC and long-term sustenance of success for Gwadar Port. Therefore, it is crucial that Pakistan and China find other avenues of trade and investment in order to attract more economic activity for Gwadar Port to the likes of Dubai or Hong Kong. Afghan transit trade from Gwadar is only a beginning. The question now is whether Pakistan and China can build on this success.

### **CPEC Connectivity to Central Asia**

Central Asian States (CAR's) are landlocked with plenty of natural resources such as natural gas, oil, ore and gold. It is believed that Gwadar Port and its allied road infrastructure would be important

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<sup>2</sup> <https://obortunity.org/2017/11/28/pakistani-interest-in-gwadar-project-fully-considered-cophc/>

<sup>3</sup> <https://asia.nikkei.com/Spotlight/Belt-and-Road/Beijing-backed-Pakistan-port-opens-as-hub-for-Afghanistan-trade>

connection for China to Central Asia via Afghanistan which is also welcoming development for CAR's. The relationship between China and the (CAR's) continues to flourish as Chinese investment rose to \$50 billion including railways, bridges, and telecommunication systems.<sup>4</sup> Pakistan has two mega energy projects under process, TAPI and CASA-1000 with (CAR's) and through extension of CPEC to Afghanistan, more avenues for investments have great potentials in the new industrial zones under CPEC. Pakistan's location makes it the natural gateway of West Asia, South Asia, Central Asia and the Middle East.

## Conclusion

Economic connectivity between China, Pakistan, Central Asian States and Afghanistan offers the most viable course for trade and transportation. Trade between CAR's, Pakistan and China through Afghanistan will save the extra resources and time. Afghanistan remains of immense strategic importance to regional connectivity, but its internal chaos and political instability along with security challenges have been a huge obstacle. Political stability and peace in Afghanistan is therefore essential for its neighboring countries and for the region. After the US-Taliban peace deal on February 29, 2020, Taliban have become a major partner in the peace process. It is thus in the interest of all regional countries to have a peaceful and secure Afghanistan.<sup>5</sup> Economic dependence of the countries and regions will further decrease the threat of terrorism and developing economic markets and providing job opportunities will prove to be an effective way to reduce the appeal of extremist ideologies.

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<sup>4</sup> Sher Baz Khetrar, "CPEC: Gateway to Central Asia" *Chinaquarterly of international strategic studies*, No: 124 03(March 2020), pp, 5-9.

<https://www.worldscientific.com/doi/pdf/10.1142/S2377740019500179>

<sup>5</sup> Ibid.