

Political Economy of Regional Trade and the Significance of Gwadar

Hamna Ghias Sheikh¹

3. Research Associate, Maritime Centre of Excellence, Pakistan Navy War College,
Lahore, Punjab, Pakistan

Corresponding email: hamna.sheikh009@gmail.com

Abstract

This research delves into the political economy of regional trade, with a particular focus on the strategic importance of Gwadar. It aims to examine how the development of Gwadar as a key port influences trade dynamics, fosters regional economic integration, and affects geopolitical relationships. The study investigates the diverse impacts of Gwadar on trade routes, cost efficiencies, and economic growth in Pakistan and the surrounding regions. By blending economic and political factors, this research offers a comprehensive analysis, utilizing the latest data and developments to provide an updated perspective on Gwadar's role in regional trade networks. Additionally, the research explores the consequences of Gwadar's development on regional rivalries, especially between Pakistan, India, and China, and its potential to alter trade flows and economic partnerships. A key aspect of this research is a comparative analysis of Gwadar with other major regional ports, such as Chabahar in Iran, highlighting the unique advantages and challenges of Gwadar. This holistic approach aims to present new insights into the political economy of regional trade, with Gwadar serving as a crucial case study.

Keywords: *Political economy, economic growth, regional trade, Gwadar, Chabahar*

Introduction

The development of Gwadar Port holds profound implications for regional trade, economic integration, and geopolitical dynamics. Strategically located at the mouth of the Persian Gulf and the Strait of Hormuz, Gwadar is positioned to become a major trade hub, linking South Asia, Central Asia, and the Middle East. Historically, Gwadar has transitioned from a small port purchased by Pakistan from the Omani Sultanate in 1958 to a significant infrastructure project under the China-Pakistan Economic Corridor (CPEC) since 2013. The port's potential to enhance trade efficiency through its deep-sea capabilities and strategic location is underscored by neoclassical trade theory, which highlights the benefits of comparative advantage and resource endowment. This research delves into the political

economy of regional trade with a particular focus on the strategic importance of Gwadar. It aims to examine how Gwadar's development influences trade dynamics, fosters regional economic integration, and affects geopolitical relationships. By utilizing the framework of neoclassical realism, which integrates external systemic pressures with internal domestic factors, the study offers a comprehensive analysis of Gwadar's role in regional trade networks. The research investigates the diverse impacts of Gwadar on trade routes, cost efficiencies, and economic growth in Pakistan and surrounding regions.

Additionally, the study explores the geopolitical significance of Gwadar, particularly in comparison with other regional ports such as Chabahar in Iran. By blending economic and political factors, this research provides an updated perspective on Gwadar's strategic value, utilizing the latest data and developments. The holistic approach aims to present new insights into the political economy of regional trade, positioning Gwadar as a crucial case study. The findings underscore the necessity of addressing security concerns and infrastructure development to fully realize Gwadar's potential as a regional trade hub.

Litrarture Review

Theoretical Frameworks

Neoclassical realism, as introduced by (Rose, 1998), provided a more nuanced approach to understanding foreign policy by integrating external systemic pressures with internal domestic factors. Unlike traditional neorealism, which focuses predominantly on the impact of systemic structures such as the international balance of power, neoclassical realism acknowledges the substantial influence of domestic politics on state behavior. This theory posits that while a country's foreign policy is primarily driven by its relative material power capabilities, these capabilities are interpreted and acted upon through the lens of domestic elites and institutions. The perceptions, interests, and decisions of political leaders, bureaucratic agencies, interest groups, and public opinion within a country play a crucial role in shaping how external pressures are understood and addressed. Thus, neoclassical realism offers a more comprehensive framework that considers the interplay between international dynamics and internal political contexts in explaining the motivations and actions behind a state's foreign policy

Neoclassical trade theory, primarily encapsulated in the Heckscher-Ohlin (H-O) model, revolutionized the understanding of international trade by emphasizing the role of a country's resource endowments—namely labor and capital—in shaping trade patterns. Unlike Ricardo's single-factor model focused solely on labor, neoclassical trade theory incorporates multiple factors of production, explaining how countries export goods that intensively use their abundant

resources and import goods that require scarce resources (Meini, 2013). This theory provides a robust framework for understanding the benefits of trade through specialization based on comparative advantage. However, it also faces criticisms, particularly regarding its assumptions of identical technologies and factor intensity reversals, which can lead to deviations from predicted trade outcomes. Despite these limitations, neoclassical trade theory remains a foundational concept, offering valuable insights into the economic dynamics driving international trade and specialization.

(Smith, 2018) In his article "Can Neoclassical Realism Become a Genuine Theory of International Relations" emphasized that the behavior of states in the international system is influenced not only by the distribution of power but also by internal factors such as domestic political dynamics and the cognitive biases of leaders. These internal factors can lead to differing reactions to similar external pressures, resulting in either under-balancing (failing to respond adequately to threats) or over-expansion (pursuing aggressive policies beyond what is necessary). This perspective underscores the complexity of state behavior, as foreign policy decisions are not solely based on external power dynamics but are also shaped by domestic political contexts and leadership perceptions.

Likewise, (Schweller, 2004) has provided a nuanced understanding of how systemic pressures from the international environment are not directly translated into state actions but are instead mediated through domestic political processes. This mediation occurs because states do not operate in a vacuum; their responses to external threats and opportunities are deeply influenced by internal factors. Domestic political institutions play a crucial role in shaping foreign policy. For instance, the structure of a government, whether it is a democracy or an autocracy, can significantly impact how decisions are made. This understanding is particularly relevant when examining complex international initiatives like China's One Belt One Road (OBOR) and its specific implementation through the China-Pakistan Economic Corridor (CPEC). China's foreign policy, including its strategic initiatives, is not only a reaction to global power structures but also a product of its internal political goals and constraints. The Chinese government's need to maintain domestic stability, economic growth, and control over frontier regions like Xinjiang significantly influences its foreign policy decisions.

Empirical Studies

Analysis of RTAs in enhancing economic integration and their relevance to Gwadar

Regional Trade Agreements (RTAs) are now essential for promoting international economic integration. RTAs promote more seamless and effective trade flows by lowering trade barriers like tariffs, quotas, and import/export limitations. By expanding markets, improving

market accessibility, and luring foreign direct investment (FDI), RTAs can greatly improve trade and investment. The potential benefit of economic integration through regional trade agreements can be analyzed through European Union and North American Free Trade Agreement. Among the best-performing examples of regional integration is the European Union. With unrestricted access to capital, goods, and services, it has established a single market. Increased trade, investment, and economic growth among member states are some of the EU's economic advantages. On the other hand, United States-Mexico-Canada Agreement (USMCA) has supplanted the North American Free Trade Agreement (NAFTA), which greatly increased trade and investment flows among its member nations which makes it best regional trade agreement example (Rasola, 2024). Gwadar, in such a way, is significant owing to its geostrategic location, access to all landlocked states, and recent investment in Special Economic Zones by China under China Pakistan Economic Corridor. The development of Gwadar, particularly through its Free Zone, is a critical component of Pakistan's strategy to enhance its economic integration with regional partners under various Regional Trade Agreements (RTAs). The establishment of business centers, storage facilities, tropical plant laboratories, and metal processing plants, along with the operation of Chinese-aided schools, medical centers, vocational institutes, desalination plants, and a Friendship Hospital, signifies the extensive infrastructural and operational investments already in place that will turn Gwadar into a regional trade hub in future (BR, 2024).

Methodology

This research employs a mixed-method approach, combining quantitative data analysis with qualitative case studies. The study uses the latest trade data, port traffic statistics, and economic indicators to assess Gwadar's impact. Comparative analysis with other regional ports, such as Chabahar, is conducted using both secondary data and expert interviews.

Analysis and Findings

Trade Dynamics and Cost Efficiencies Impact on Trade Routes

Gwadar Port is ideally situated to be a hub for connectivity and trade between the western regions of China along with the rest of the world. Its growth has a great deal of potential to ease trade, lower the cost of transportation, and expand economic prospects of China and Pakistan. It has a high potential to become a key node in regional trade networks due to its strategic location, trade potential, and geopolitical significance. Here are some factors that highlight Gwadar's potential.

Strategic Location

“If we see this whole region, it is like a funnel. The top of the funnel is this wide area of Central Asia and also China’s western region. And this funnel gets narrowed on through Afghanistan and Pakistan and the end of this funnel is Gwadar port. So this funnel, futuristically, is the economic funnel of this whole region” (Former President of Pakistan Pervaz Musharraf, 2002: 22nd March).

Gwadar, strategically located at the crossroads of significant maritime trade routes, holds a dominant position in the Gulf region, as highlighted in the context of the 'Great Game' (R.K.Bhonsle, 2006). Its proximity to the Persian Gulf, where a significant portion of global oil exports originate, enhances its value, offering an alternative route to the heavily congested Strait of Hormuz. As a central component of the China-Pakistan Economic Corridor (CPEC), Gwadar connects China’s Xinjiang region to the Arabian Sea, providing China with a more secure along with shorter route for its energy imports from the Middle East. Likewise, the port's deep-sea capabilities itself allow it to accommodate large container ships, making it ideal for trans-shipment activities. The development of Special Economic Zones (SEZs) around Gwadar aims to attract international investors by offering tax incentives and infrastructural support, further boosting its potential as a regional trade hub. Additionally, Gwadar's extensive multimodal connectivity, linking it to major cities in Pakistan, Afghanistan, Central Asia, and China, enhances its role in global trade networks. Its potential as an energy corridor, facilitating the transportation of oil and gas from the Middle East to China and Central Asia, is significant in every aspect (Malik, 2012).

However, to fully realize this potential, security concerns, infrastructure development pace, and political stability must be effectively managed. If these challenges are addressed, Gwadar is well-positioned to emerge as a pivotal regional hub and trans-shipment port, reinforcing its strategic importance in the Gulf region.

Trade Potential

The trade potential of Gwadar, significantly Gwadar Port can be assessed in light of current global trade trends. Global maritime trade continues to grow, underscoring the need for additional ports to manage increasing volumes of maritime trade. According to the 2022 issue of the United Nations' Review of Maritime Transport, there was a notable increase in the demand for shipping services in 2021, driven by a 3.2 percent rise in world seaborne trade. The overall seaborne trade volume reached approximately 11.0 billion tons (UNCTAD, 2022), reflecting a significant increase over previous years. Similarly, world container port traffic saw a substantial

growth of 10.5 percent. Projections based on current trends indicate that world container traffic is expected to exceed 932 million TEUs by 2025 (Statista, 2023).

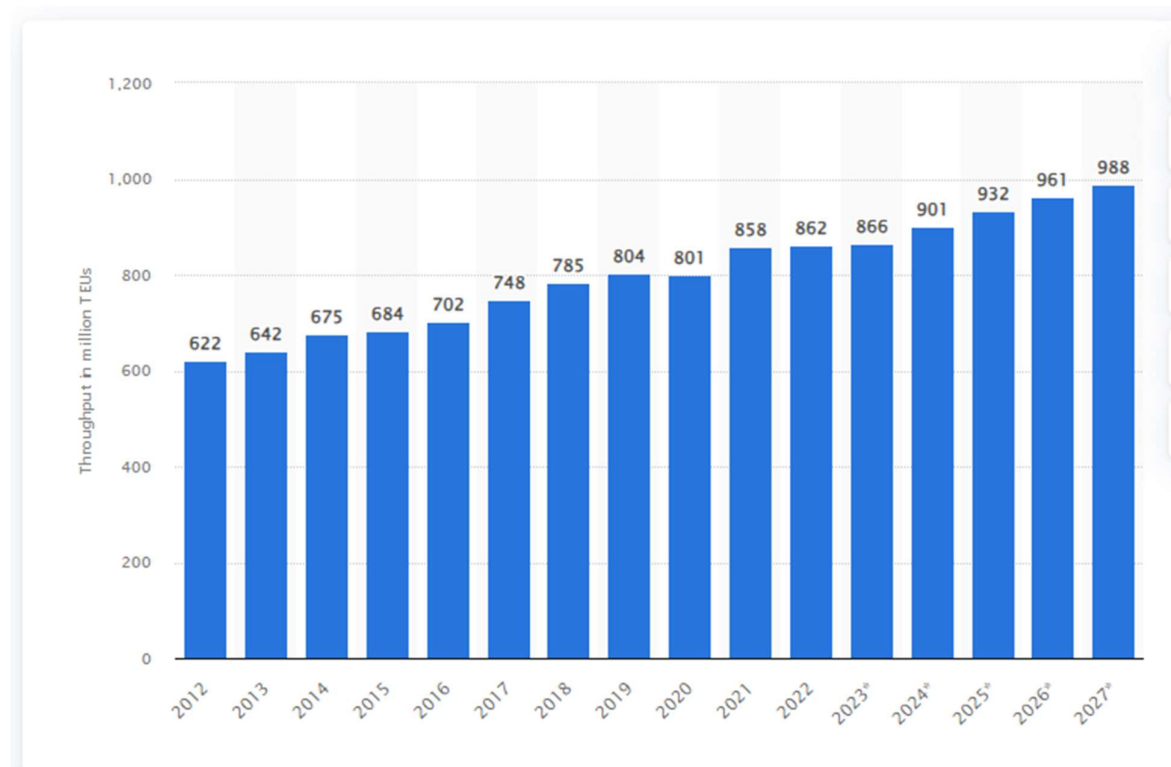


Figure 1 Statista Research Department Report 2023

As global industrialization advances, the demand for energy sources such as coal, natural gas, and oil continues to rise to support economic growth. Studies predict that the demand for natural gas will grow at an annual rate of around 3 percent, while the demand for oil will remain robust (Siad, 2024). These global trade trends and the rising demand for energy necessitate the development of additional ports. Given its strategic location, Gwadar's deep-sea port is well-positioned to become a key hub, facilitating the handling of increased trade volumes and meeting the growing demand for energy resources. It also offers an alternative and secure route to the oil-rich Middle East and the Central Asian Republics (CARs). Considering its strategic geo-economic location, favorable global trade trends, and the increasing global demand for energy and secure trade routes, Gwadar Port is poised to generate substantial revenues once fully operational (Khan N. A., 2018).

Geopolitical Significance

Gwadar Port holds immense geopolitical significance due to its strategic location at the mouth of the Persian Gulf and the Strait of Hormuz, a crucial chokepoint for global oil supplies. Its deep-sea and warm water capabilities make it a pivotal node in the international maritime

trade network. Historically purchased from the Omani Sultanate in 1958, Gwadar has evolved significantly, especially after being handed over to the China Overseas Port Holding Company in 2013. The port's development, alongside Gwadar city, power plants, and an international airport, underscores its potential to become an international trade hub connecting Central Asia, South Asia, and the Middle East. This connectivity can facilitate the exploration of mineral and energy resources in the Central Asian Republics (CARs) and attract significant foreign investment and tourism, boosting Pakistan's economic prospects (IPRI, 2015). Additionally, Gwadar enhances Pakistan's strategic leverage by providing an alternative route to the Indian Ocean (MDP, 2018), reducing reliance on the Strait of Malacca, and enabling better monitoring of Sea Lines of Communications (SLOCs). Despite facing challenges such as infrastructural underdevelopment and security concerns, Gwadar's potential to act as a catalyst for regional connectivity and economic prosperity is undeniable, offering Pakistan strategic advantages over regional rivals like India and reinforcing its role in the China-Pakistan Economic Corridor (CPEC).

Offering shorter and cost-effective routes

Gwadar Port, located on Pakistan's southwestern coast, offers significant advantages for shorter and cost-effective trade routes, particularly benefiting landlocked Central Asian countries and western China. The port's strategic position reduces the distance for transporting goods compared to traditional routes. For instance, the distance from China's western Xinjiang region to Gwadar is approximately 2,800 kilometers, significantly shorter than the 4,500 kilometers to Shanghai (Ashraf, 2022). Moreover, it provides a strategic alternative to the congested Strait of Malacca, a critical maritime chokepoint through which a significant portion of global maritime trade, including about 80% of China's oil imports, passes through it (CP, 2018). This strait is not only congested but also vulnerable to piracy, geopolitical tensions, and potential blockades, making it a risky and time-consuming route. By offering a direct access route to the Arabian Sea, Gwadar mitigates these risks, ensuring more secure and efficient passage for goods. Likewise, the geographical advantage of Gwadar allows for quicker and more economical access to global markets. Ships traveling from the Middle East to western China and Central Asia can save considerable time and fuel costs by docking at Gwadar instead of navigating the longer route through the South China Sea and the Indian Ocean. This efficiency is further enhanced by the reduced distance between Gwadar and key Chinese regions, such as Xinjiang, compared to the distance to eastern Chinese ports like Shanghai.

Furthermore, the China-Pakistan Economic Corridor (CPEC) plays a crucial role in maximizing Gwadar's potential by developing comprehensive infrastructure that facilitates trade. CPEC includes a vast network of highways, railways, and pipelines designed to link

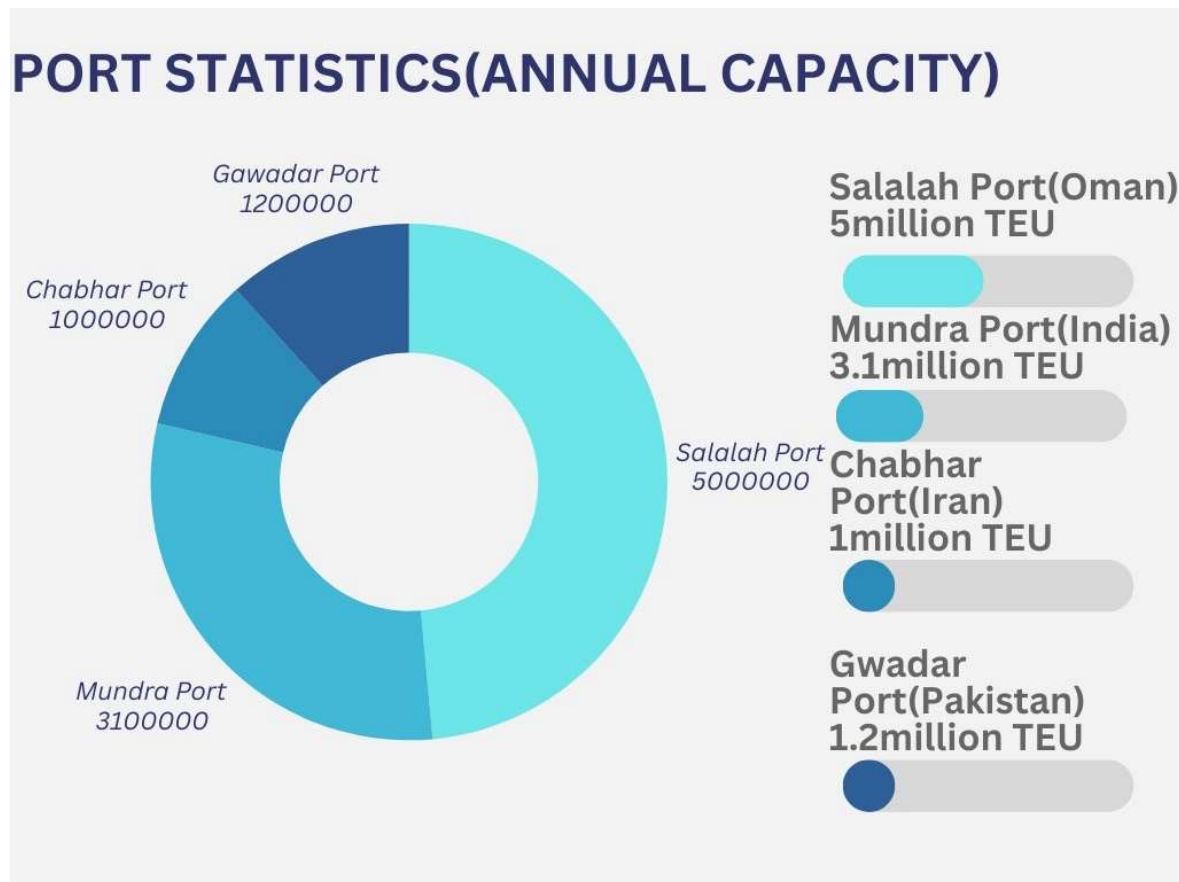
Gwadar with major economic hubs in Pakistan and extend into China and Central Asia. For example, the construction of the Gwadar-Kashgar railway and highway networks shortens the overland route, providing a seamless link from the port to inland destinations. By bypassing the longer and more vulnerable routes through the South China Sea and the Indian Ocean, and through the robust development of CPEC infrastructure, Gwadar provides a cost-effective and strategically secure alternative for global trade. This transformation is set to significantly enhance regional connectivity, reduce transit times, and lower transportation costs, ultimately fostering economic growth and stability in the region (Hussain F. , 2021).

Comparative Analysis with Regional Ports

Since ancient times, sea routes have been crucial in linking continents and transforming the world into a global village. The demand for docking facilities and other services for large shipping vessels has steadily grown. This need led to the establishment of "seaports." Positioned near coastlines, these ports aim to enhance connectivity and support trade and commerce activities (Naeem, 2024). Comparative analysis between few of the important regional ports is as follows:-

Aspect	Mundra Port	Chahbhar Port	Gwadar Port	Salalah Port
Location	Gujrat, India	Iran, Sistan Balochistan	Balochistan, Pakistan	Dhofar, Oman
Container Throughput (Million TEUs)	6.6	0.1	0.05	4.5
Key Trade Commodities	Coal, crude oil, containers, fertilizers, iron ore	Grains, transit goods, petroleum products, container cargo	Fish, coal, cement, fertilizer	General cargo, containers, bulk cargo

Trading Partners	UAE, USA, China, Europe	Afghanistan, India, CIS countries	China, Middle East	East Europe	Africa, Middle East,
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Comparison of Gwadar and Chabahar in terms of infrastructure development and investment inflows

With the rise in world's commercial activities, sea politics is becoming more complex and multifaceted with each passing day. Sea routes, among all other trade paths, are crucial to global economic activities in a broader dimension. The ports of Gwadar and Chabahar hold significant importance, both geographically and economically, not just for Pakistan and India, but also for China, Iran, and the Central Asian Republics (CARs).

Gwadar is a crucial port located near the oil-rich and gas-producing Gulf States, highlighting its strategic importance. The first phase of its development, costing \$298 million,

was completed with Chinese assistance (Kardon, Kennedy, & Dutton, 2020). This phase includes three multi-purpose berths, a service berth, a navigable channel, roads, and various port facilities. The second phase, to be developed by the private sector, aims to accommodate large container ships, dry bulk carriers, and oil tankers. It will include more terminals, berths, and other infrastructure to significantly increase its capacity. Likewise, port's annual capacity is designed to handle more than 300 to 400 million tons of cargo, which is comparable to the combined capacity of all ports in India (Tanoli, 2020). Gwadar's deep-sea location requires less maintenance and is expected to boost Pakistan's economy by attracting foreign investment, improving market access, and addressing the country's electricity deficit (Kaleem & Syed, 2020). In comparison, the Chabahar port in Iran has a much smaller capacity, handling only 10-12 million tons of cargo annually with just four berths. Despite this, Chabahar offers India strategic advantages by reducing the cost and time of transporting goods to Europe and providing access to Central Asia, South Asia, and the Middle East. The port also supports India's growing economy by facilitating trade with Europe and Russia through the International North-South Transport Corridor.

Discussion

Neoclassical Trade Theory and Importance of Gwadar

Neoclassical trade theory, primarily encapsulated in the Heckscher-Ohlin model, emphasizes the role of a country's resource endowments—such as labor and capital—in shaping its trade patterns. According to this theory, countries will export goods that intensively use their abundant resources and import goods that require resources they lack, thereby benefiting from comparative advantage and efficient resource allocation. Gwadar's significance in regional trade aligns well with neoclassical trade theory, as its strategic location and deep-sea capabilities position it to become a key node in regional trade networks. By offering shorter, cost-effective routes and enhanced connectivity between South Asia, Central Asia, and the Middle East, Gwadar can significantly boost trade efficiencies and economic growth in the region. Its development under the China-Pakistan Economic Corridor (CPEC) underscores the potential for Gwadar to facilitate the movement of goods and energy resources, leveraging Pakistan's geographic advantages to enhance its trade competitiveness and foster regional economic integration.

Economic gains and security challenges in Gwadar's Development

The development of Gwadar is directly or indirectly depends on delicate balance between economic opportunities and security challenges. As with each passing day, Gwadar is emerging as a critical hub for regional trade and economic growth, the pursuit of infrastructure and investment is closely intertwined with the need for robust security measures which stands at the heart of the development of this region. As the port holds significant potential to transform Pakistan's economic landscape, but it is equally contingent on addressing the complex security dynamics that threaten its stability and long-term success for becoming a regional trade hub.

Infrastructure Development

The development at Gwadar port under CPEC is driven by both political as well as economic considerations. As infrastructural investment projects under CPEC are estimated to potentially reach \$55 billion over a decade. These investments are directed towards upgrading infrastructure, diversifying and boosting energy supply, and improving overall regional trade connectivity, which is expected to increase economic growth in Pakistan. However, for unlocking the significance of Gwadar, successful implementation of CPEC requires clear delineation of responsibilities, specific targets and goals by the government, and a clear cut system of incentives and penalties for performance. Monitoring of CPEC development activities by both China and Pakistan are important for regional trade aspect. The improvements can be driven through joint oversight of the project in order to make Gwadar as a hub of regional trade in upcoming days (Hussain D. I., 2020).

Security challenges

It will be pertinent to say that economic investments are always intertwined with security strategies. Given the region's security landscape, safety of investment projects is paramount. Although, the government of Pakistan has adopted a comprehensive strategy to minimize the security risks at Gwadar port that includes legal reforms and joint regional initiatives. Back in 2014, the anti-terrorism law was amended in order to enhance Pakistan's counter-terrorism capabilities, marking a significant milestone in the nation's strategy to counter and control terrorism. This amendment underscored Pakistan's commitment to combating terrorism and eliminating terrorist elements. Additionally, the port law in Pakistan also plays a crucial role in terms of ensuring stringent security permits, safety, and hazard prevention in port construction projects. This legal framework requires approval from federal and provincial authorities to ensure that projects involving the movement of hazardous cargo, gas stations, and fuel storage companies comply with safety regulations and standards (Khan, Shei, & Ali, 2024).

Likewise, terrorist attacks in Balochistan, underscores the severe security challenges that hinder the region's political and economic stability. These incidents are part of a disturbing pattern of ethnic-targeted violence aimed at creating unrest and undermining efforts to foster political dialogue and economic development. As the table below shows the terrorist activities assessment:-

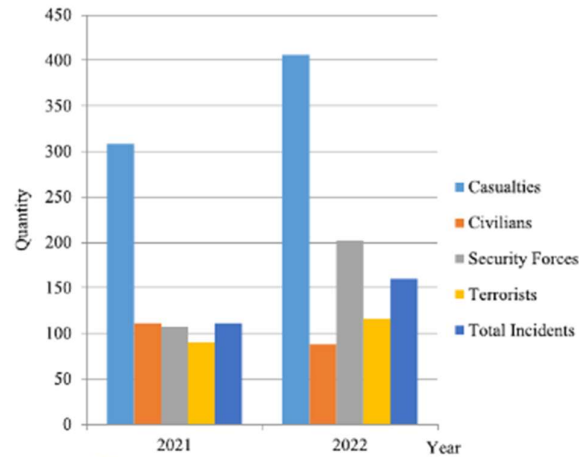


Fig. 2 Terrorism assessment (Balochistan, 2024)

Such violence has significant implications for the political economy of regional trade, particularly concerning the strategic importance of Gwadar Port. As a key node in the China-Pakistan Economic Corridor (CPEC), Gwadar is pivotal for enhancing trade connectivity between Pakistan, Central Asia, the Middle East, and Africa. Ensuring robust security measures and bringing perpetrators to justice are crucial for safeguarding Gwadar's role in regional trade and securing sustainable socioeconomic development in country (Editorial, 2024)

Security threats and risks

From a security standpoint, Gwadar is facing significant threats and risks, particularly from ethnic-separatist and radical religious terrorist groups operating between Gwadar and China. These groups pose a substantial danger to foreign investors, investments, and infrastructure projects. Additionally, the city of Quetta, a known hub for various terrorist organizations, presents a major security challenge for the China-Pakistan Economic Corridor (CPEC). The region's rugged terrain serves as a haven for these terrorist groups. In the field, there have been direct attacks on foreign investors. Moreover, it's crucial to acknowledge the contentious Kashmir region through which CPEC passes, adding another layer of complexity.

Negative local perception

The ongoing protests in Gwadar pose significant security challenges, especially given the region's importance in the China-Pakistan Economic Corridor (CPEC). The unrest highlights the local population's grievances and brings attention to the potential for escalating violence, which could destabilize the area. Such instability threatens not only the progress of infrastructure projects but also the safety of Chinese investments and personnel, thereby complicating Pakistan's efforts to maintain a secure environment essential for CPEC's success (Amir, 2024). Another crucial factor and the major challenge is how the local population perceives and supports Gwadar and the China-Pakistan Economic Corridor (CPEC). It has been observed that there have been periodic protests (Bezinjo, 2023) in the region, with a significant criticism being that local residents do not directly benefit from the investments and job opportunities which are created by CPEC. Moreover, despite major construction projects underway, poverty in the region persists and there is a growing awareness of significant economic disparities within society ultimately creating a negative local perception. At this stage, the stability and long-term success of any project hinges greatly on whether it gains acceptance and support from the local population. If a big project like CPEC is not embraced by the people living in the region, it could lead other countries and potential investors to question its stability and sustainability (KAYA, 2023).

Threats from Regional Powers

Although, CPEC offers Pakistan a significant opportunity to become a hub of Asian trade, boost exports, and enhance economic activities. However, since 1947, Pakistan's relations with India have been strained, primarily due to the Kashmir issue. India, not wanting to see Pakistan prosper, has attempted to isolate Pakistan on the international stage through various tactics. This includes establishing fake media outlets and running disinformation campaigns against Pakistan globally. Moreover, the way India supports Baloch militants to destabilize Pakistan, aims to deter Chinese investment in order to isolate Pakistan, and reinforce its own regional dominance (Shah, Kausar, & Sarwar, 2022). Regional powers also pose a threat to CPEC and the development of Gwadar, further complicating the security and stability required for these projects.

Conclusion

Gwadar's potential to become a regional trade hub is immense, driven by its strategic location, deep-sea capabilities, and integration into the China-Pakistan Economic Corridor (CPEC). The port's development offers numerous opportunities for economic growth, enhanced

trade efficiency, and regional connectivity. To fully realize these opportunities, several recommendations are essential:

1. Continued investment in port infrastructure, including the construction of additional berths, terminals, and supporting facilities, is crucial. This includes developing robust road and rail links to key economic centers in Pakistan and beyond, facilitating seamless trade flows.
2. Addressing security concerns is paramount. The implementation of stringent security protocols, enhanced surveillance, and cooperation with regional security agencies can mitigate the risks posed by terrorist activities and ensure the safety of investments and personnel.
3. Ensuring that the local population benefits from Gwadar's development is critical. This can be achieved through targeted employment initiatives, vocational training programs, and community development projects that address local needs and foster positive perceptions of the port and CPEC projects.
4. To counter regional threats, Pakistan and China must develop strong strategies at both international and regional levels to foster regional cooperation and reduce geopolitical tensions in future. Diplomatic efforts should focus on enhancing partnerships with neighboring countries and securing mutually beneficial trade agreements.
5. Promoting Gwadar as a hub for diverse economic activities, including industrial manufacturing, energy transshipment, and tourism, can enhance its economic viability and resilience. The development of Special Economic Zones (SEZs) with attractive incentives for investors can further boost economic activity.

By addressing these key areas, Gwadar can transform into a pivotal regional trade hub, driving economic integration and growth while enhancing geopolitical stability in the region. The port's success will depend on a holistic approach that integrates economic, political, and social factors, ensuring sustainable and inclusive development.

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