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The Gwadar-Karakoram-Xinjiang Corridor

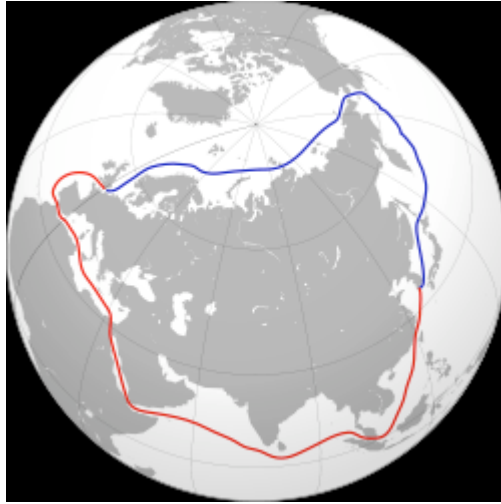
The Crowning piece of China's Strategic Mosaic to its Africa and Middle East Undertaking

By

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Preamble – A Historical Fable Morphs into Actuality

The North and Northwest Passages were fabled sea routes conjured by adventurers, merchants and money chandlers over the last six centuries to link the Pacific with the Atlantic Ocean. The Route lay through the Arctic archipelago of what became Canada and the treacherous ice flows that frustrate passage across the Arctic Ocean. To discover, establish and control a commercial all weather sea line of communication that would have world wide economic significance was the quest of early explorers. Some of these voyages ended in disaster while others in failure in the search for a viable deep sea channel amidst drifting icebergs and trapping ice flows. Not till 1906 when Amundsen made the transit over an arduous three year voyage was the feat achieved; and a feat it remained till Nature through global warming made the passage a distinct commercial and strategic verity. Today the route is a reality and in 2011 alone more than 18 commercial ships had made the now ice free crossing. To put matters in perspective, as a trade corridor the distance from China to markets in Europe has been cut down to less than 8000 miles from 14,700 miles. Significantly the route avoids two sensitive 'choke points' the Malacca Strait and the Suez Canal.



*A graphical comparison of the trade corridor
From China to Europe, Northern Passage in Blue*

While a combination of strategic security considerations, geopolitical circumstances, commercial power rivalry, imperatives of economy in a globalised world and Nature made actuality of a fable; a very similar array of forces have set in motion another global quest. Only on this historical occasion it is China that leads the charge to secure a strategic corridor serviced by a maritime terminal that would quench not just its thirst for energy but also provide a secure alternative conduit for the ‘fruits’ of its Africa and Middle East ventures to feed its resource guzzling growth programme.

Compulsions of Growth

The China growth story over the last quarter of a century has been breathtaking. The transition from an economic backwater to the role of one of the prime movers of global economy is a narrative both intimidating and awe-inspiring. It is the world’s second largest and fastest growing economy with a growth rate averaging near 9.5% during this period. China is also the largest exporter and second largest importer of goods in the world.

What made it all happen? Was it a set of historical circumstances and economic fortuities? If at all there was a mantra then it may be attributed to four critical conditions; firstly, China’s rapid transition to ‘State Capitalism’ since 1978; secondly, leadership that saw economic opportunities in the new globalised circumstance and had the sagacity to not just grab it on national priority, but also to dump the baggage of its immediate past and set aside all other political and

ideological considerations; thirdly, the ability to harness the unique combination of a vast supply of young cheap labour and a willingness to open the country to the world; lastly, the single minded ruthlessness with which policy was implemented.

China today exerts huge influence beyond her shores. Commodity prices and markets are today driven by her hunger for raw materials and energy which in turn has translated to cheap finished products. This cycle in the middle term is irresistible. Nearly every global manufacturer now has become vulnerable to the ‘China Price’.¹ A cycle that is not so apparent and yet is equally unremitting is the rate of technological convergence that growth and development have set into motion. In time, indications are, ‘technological-catch-up and overhaul’ will provide the impetus to sustain growth.

The extent of China’s global outward impulse in general can be appreciated by the fact that nearly 60% of its oil demands come through imports (from once being an oil exporter in the 1980s) half of which is from the Middle East and 30% from Africa. Sino-African trade in 2010 amounted to \$126.9b and while the balance of trade is equitable, it is the nature of policy in terms of political non-interference and content that is significant; 90% of imports are made up of primary products (fuel 65%, metals 25%) while exports comprise finished products machinery and transports 60%, communication and IT 20%. China’s direct investment in the region is \$40b (approx, up from \$200m in 2005); of note is the \$34b in soft loans for cross continent and port infrastructure.² More specific to this study, the value of energy from Africa is summarised in Tables 1.

Table 1: China’s top 10 trading partners in Africa

Source: Edited by Capital Week

	Economic type	Average annual trade, 2006-2010 (US \$ million)	Share in total China-Africa trade
Angola	Oil export	18,627	21%
South Africa	Diversified economy	166,86	18%
Sudan	Oil export	6,445	7%
Nigeria	Oil export	5,774	6%

Egypt	Diversified economy	5,384	6%
Algeria	Oil export	4,155	5%
Libya	Oil export	4,154	5%
Republic of the Congo	Oil export	3,241	4%
Morocco	Diversified economy	2,548	3%
Benin	Agriculture	2,097	2%
Weight of top ten trading partners in total China-Africa trade			76%

In terms of realpolitik, which we are concerned with, four vital interests drive China's venture into Africa and the Middle East; in order of priority (as determined by sustenance of growth and therefore impact on regime durability) these are identified as follows:-

- Access to Energy, Minerals, Timber, Agro products and their Secure Routeing.
- Enhanced exports of technology and finished Products.
- Investment and Control Participation in Cross Continent Infrastructure, Roads, Rail and Ports.
- Support in International Fora and Recognition of One China.

What will be evident is the enormous stake that China has in the region and the investments it continues to make to provide guaranteed and secure transit corridors to assure unimpeded flow of the instruments of growth. The Gwadar-Karakoram-Xinjiang passage is a key enabler for the Africa-Mid East enterprise and is the abiding focus of our examination.

The Gwadar-Karakoram-Xinjiang Passage

In 1941 a curious and little known war was fought in neutral Persia when the reigning Reza Shah refused the Allies access to the Trans-Iranian rail. Britain and the USSR saw in the rail link a continental conduit in addition to the two sea routes (Arctic and Pacific) to logistically relieve the Soviet Union. In August of that same year Britain and the Soviets invaded Iran and in a quick campaign, deposed the

monarch and took control of the rail link to facilitate a land route from the Persian Gulf entry points at Basra, Bandar Shahpur and Bushehr to Tehran and onward to Azerbaijan for the American 'Lend-Lease' supplies. Statistically the 'Persian Corridor' accounted for 8 million of the 16.3 million tons of supplies that the USA delivered to the USSR during the War³. The purpose of recounting this particular episode is to highlight the critical importance of diversifying strategic logistic routes and the need to secure them to the extent of using military force.

The lessons of the Persian Corridor have not been lost on China. Their strategic quest to secure transit routes have impelled them to develop a trans-regional corridor from a maritime entry point at Gwadar diagonally along a north eastern orientation across the Karakoram into the Xinjiang; the motivations are there as in war to diversify and establish alternative routes, only 'war' may not have been declared but the context remains a shaky and competitive peace.

In the Karakoram, Kunlun and Himalayas, China has built rail, road, air and energy pipeline networks that can not only support its military deployment in Xinjiang and Tibet but also link up with the hinterland and the throbbing industrial coastal region. Importantly, the missing conduit is a multi function corridor that provides a gateway to the North Arabian Sea which, indeed, is the crowning piece of China's strategic mosaic to its Africa and Middle East undertaking.

The Crowning Piece in the Strategic Mosaic

In 1963, Pakistan ceded more than five thousand square kilometres of territory in the Karakoram region of Pakistan Occupied Kashmir (POK). This accommodated the construction of the Karakoram Highway that links China's Xinjiang region through the Kunjerab Pass with Pakistan's Gilgit-Baltistan and Khyber Pakhtunkhwa regions. Started in 1959 and completed in 1979, the 1,300 kms highway connects Kashgar with Islamabad traverses some of the world's most hostile terrain.

The second tier to this logistic conduit is the establishment of rail links. A proposal was made in 2010 to launch a joint China-Pakistan project to link Kashgar in Xinjiang to Havelian near Rawalpindi in Pakistan by a 700 km rail link through the Khunjerab Pass. The proposal coincided with China designating the city of Kashgar as a Special Economic Zone⁴ (the mantra for change in China which allows adoption

of economic management systems that are especially conducive to doing business), lending credence and an element of urgency to the project.

The third and perhaps the most vital logistic layer and indeed, the most fragile in this strategic scheme, is the energy channel that serves to provide an efficient alternative to the exposed and vulnerable sea passage through the Malacca/Sunda/Lombok Straits. At the southern end of the Karakoram corridor is Gwadar port on the Arabian Sea. Pakistan has urged China to use and take maximum benefits from the Gwadar port.

The port was built with Chinese financial assistance (80 percent of its initial \$248 million development costs) and was offered to the Port of Singapore Authority (PSA) to conduct shipping operations in February 2007 for 40 years. The port performance has been unsatisfactory; only 72 ships have brought government cargo to Gwadar Port and PSA was reluctant to make a further investment of \$525 million in the next five years⁵. Pakistan is keen that China constructs oil/gas pipelines from Gwadar to Xinjiang ostensibly to transport Iranian gas that was earlier part of the Iran-Pakistan-India (IPI) pipeline project. In 2008, Yang Jiechi, Chinese foreign minister, had stated that China was "seriously studying Pakistan's proposal to participate in the IPI gas pipeline project"⁶, however a recent report suggests that China has pulled out of the deal to finance the project on account of US sanctions on Iran⁷. Map 1 graphically represents China's Oil Pipeline import options in green.

China's Oil Pipeline Import Options



PFC Energy | Page 22

Map 1

Source: Michael Rodgers PFC Energy 2009-2010

The pipeline from Gwadar to Tarim via Kashgar is flagged as unlikely to happen (in the near future, see Map 1); while this may be current appreciation based on the security situation in Pakistan, clearly the strategic logic for the pipeline is unmistakable. To put matters in perspective China's oil imports total 6 million barrels per day (mb/d); of this 7% ie, 430,800 bbls/d comes from Iran while 30% ie, 1,800,000 bbls/d comes from fields in Africa;⁸ all of which, today, transits in hulls via the straits as indicated in Map 1. This single fact must cause considerable strategic anxieties to Chinese planners since an alternative passage does not exist.

The Gwadar-Kashgar pipeline, if and when realised, will span a distance of 2000 kms (approx). Assuming the Canada-USA Keystone pipeline (operationalised in 2010) as the model; then we are implying a 1 metre diameter conduit serviced by a pumping station about every 120 kms with a flow rate of 6mtr/sec and a capacity to deliver 590,000 bbls/d (approx) amounting to 9.8% of their total imports. The

economics of one such pipeline would be in the region of \$12 billion and given the nature of terrain may take up to 10 years to complete.⁹

The Port of Gwadar

The port of Gwadar represents the maritime interface of the logistic and energy corridor. Its geography is what gives it strategic significance. Situated in the Balochistan province this deep water port combines proximity to the mouth of the Persian Gulf without being cloistered within the narrow Strait of Hormuz. Its commercial value lies in its potential for providing trans-shipment facilities for containers and bulk cargo and as a maritime outlet for Central Asian countries. The port as mentioned earlier is being constructed with considerable investment by China. Phase I was completed in March 2008. The facilities operationalised include 3 multipurpose berths with total wharfage of 602 metres, essential services and an approach channel dredged to 12.5mtrs¹⁰.

Phase II of construction, which is of interest to this study, envisages nine additional deep water berths including two oil terminals capable of handling 200,000dwt tankers (allowing for a conversion factor of 7.33 barrels to 1 ton of crude and a turn around period of 4 days, the handling capacity is about 0.7mbbls/d) which could feed directly into continental pipelines. The problem with Phase II is security, funding and the fact that the deal is mired in controversy¹¹; at an estimated cost of \$932million the PSA agreement is in the Pakistan Supreme Court for cancellation of project¹². China's response to the Pakistan request to step into PSA's shoes is not entirely clear since the deal with PSA is yet to be closed and the security situation is not getting any better.¹³ The current status of Gwadar port may perhaps vindicate the notation on the 'red flag' pinned on the port at Map1.

The Maritime Military Dimension

Julian Corbett made a convincing argument when he stated that control of sea spaces is neither identical nor analogous in its strategic conditions with the conquest of territory.¹⁴ The reasons are amply clear for the seas are not susceptible to ownership (outside territorial waters) because neither can neutrals be excluded from it nor can forces and populations subsist on it for any cognisable duration of time. Therefore the only deliberate consideration is how best to secure the right of free and unfettered passage for both commercial and, should the need arise, military purposes.

For China, it is this factor of securing the ‘right of passage’ in this troubled region that is of critical consequence. The Port of Gwadar with all its geo strategic features mentioned earlier, provides to its nascent ‘blue water’ Navy a reach and control capability that would assure security of its energy lines and sanctuary to its raw materials emanating from Africa. It is towards this end that Chinese strategic policy is directed. Whether development as an international maritime power is going to cause friction with regional players such as India remains the moot question.

Strategic Impact on Region

China’s commercial and military engagement of Africa and West Asia and quest for an alternative, secure and controlled strategic energy and raw material corridor is no aberration but the start of a multi pronged strategic trend. Like the Imperial Powers of the colonial era before and Super Powers in more recent times, China’s charge to acquire other discrete supply lines will demand that the primary prong to the ‘trend’ embrace continued enhancement of it’s naval capabilities in-region and exploit the willingness of Pakistan to replace the influence played by America on her affairs. The second prong is on the diplomatic front; its growing assertiveness is evident in the stance it has taken on Syria in the UN, continued technological and material support it provides to Pakistan; it’s blocking of sanctions and refusal to cut back on oil sourced from Iran and its very keen attention to the course of the confrontation there. In these dealings, what is most remarkable is the absence of political baggage. The third prong is its deployment of soft power in the region in terms of infrastructural, educational, technological, soft loans and other aid programmes.

Against this backdrop is the centrality, to China, of continued rapid growth and regime perpetuation and therefore the imperative to temper and balance her strategic aspirations with a non-confrontational posture when dealing with other key regional players even at the cost of relations with secondary players. This, despite the fact that recent American actions in the region to replace unpalatable dispensations are seen as destabilising events. Clearly China has little incentive in catalysing unrestricted rivalry with regional players, as such a situation will only serve to close markets and draw on resources which could better serve the cause of growth and development. Yet at the same time, it is rational to assume that they would extend themselves to ensure that their interests are not degraded either by forces inimical to

them or as consequence of unrelated political or military action. The significance of the Gwadar-Xinjiang energy and raw material passage in both conditions remains strategically pivotal.

Challenges Ahead and Policy Recommendations

India's interests in the region is strategic, enduring and diversifying just as China's is and so too the sole superpower's. What form this strategic competition will take and the substance of it will perhaps only be clear when the dust of USA's involvement in Iran, Afghanistan and Iraq settles down. However there is considerable congruency of interests which for starters provides a substructure for strategic entente.

The challenge before Indian Planners is therefore to identify areas of common and overlapping interests and to enhance cooperation in these areas. The singular factor that is clearly in the domain of vitally shared interest of India, China and the United States of America (and her allies) is guaranteed energy security, safety of production facilities and protection of transportation infrastructure. The three also share a common sensitivity to the promotion and export of terrorism from the region particularly from the Afghanistan-Pakistan area. This could take the form of joint naval patrols working in tandem with littoral states and the use of their commercial and diplomatic clout to rein-in maverick states.

Participation of the three in forums such as India Africa Forum Summits (IAFS) and the Indian Ocean Naval Symposium (IONS) would give relevance and substance to these institutions. After all not to include the main actors with governing stakes in the area, notwithstanding the fact that China and the USA are extra regional powers, is to denude these associations of context.

The next logical step would be to give regulatory teeth to these bodies, since two of the objectives of IONS is "...to address present and anticipated challenges to maritime security and stability". Secondly "To establish and promote a variety of trans-national maritime cooperative mechanisms designed to mitigate maritime security concerns within the Indian Ocean"¹⁵

The relationship that oil producers have with their consumers is a symbiotic one; this interdependence provides the basis of a new security framework which could be driven by action to promote security to both consumer and producer in such a manner that stability becomes of interest to all parties.

Given the stakes that China has in her own development and her justified security concerns, there are adequate signals to suggest that India needs to pull out of the state of paranoia that she transits through every time that China collaborates with Pakistan, particularly so in the case of the Gwadar-Karakoram-Xinjiang energy cum raw materials corridor. It is true that there are very serious unresolved territorial disputes that plague Sino-Indian relations and the proposed corridor runs through some of this territory; but what is of greater significance is the burgeoning trade between the two which is expected to reach \$100 billion by 2015. In this deepening of commercial relations lies the germ of friction resolution.



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On retirement after 45 years in uniform, he is settled in the Nilgiris. He passes down his operational and strategic experience through articles in professional journals and participation in seminars. He has lectured at the Staff College, Higher Command College, the United Services Institute and the National Maritime Foundation. He currently tenants the Admiral Katari Chair of Excellence at the United Services Institute and is also a member of the adjunct faculty of the National Institute of Advanced Studies. Internationally he has presented several papers and participates in the Track 2 Ottawa dialogue, Chaophraya dialogue, Bellagio discussions, Tri-lateral Sino-Indo-Pak conference .

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