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# The Economic Importance of Chabahar Port and the Available Opportunities for Iran, India, and Pakistan

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## INTRODUCTION

Chabahar port is an old Iranian-Indian project that was delayed for many years due to the international sanctions against Iran. It has recently revived after signing a several-million-dollar agreement between Iran, India, and Afghanistan to jointly develop transportation links to Afghanistan. India agreed to implement the biggest part of this project and lay a railroad track from the port of Chabahar to Afghanistan to achieve major strategic and economic gains for both India and Iran.

In essence, the port serves the interests of Iran. It helps to enhance the Iranian oil and non-oil exports and obtain direct access to central Asia in addition to other gains that will be explained in this study.

Chabahar seems to serve the Indian interests more in the longer term. It gives India access to Afghanistan and enables it to bypass Pakistan- its bitter rival- and compete with china through expanding its influence to Central Asian countries; consequently, after slackening the Western sanctions on Iran, India hastened to sign the Chabahar agreement in May 2016 and invested hundreds of millions of USDs in completing the project before any of its regional rivals, especially china, takes an alike step.

Developing Chabahar port is also crucial for Afghanistan, which is a land-locked country and does not have access to sea ports. By signing this agreement, Afghanistan will have access to an oceanic port, bypass the Pakistani port of Karachi, and achieve many economic gains.

Chabahar free zone is about 1800 Km away from Tehran, the Iranian capital. It is located in Sistan and Baluchistan province Southeast Iran nearby the Pakistani borders. It is the only Iranian port on the Indian Ocean and the first out of Hormuz Strait. The former Iranian government carried out part of the project and the current one will complete it with the financial and technical support of India.

In this study, we will scrutinize the obligations and importance of Chabahar port for each of India, Iran, and Afghanistan, and will provide a broad reading for the prospect of the Iranian-Indian or Indian-Iranian project of Chabahar.

### The Indian-Iranian Partnership

In 2003, Iran and India had broached the plan of developing the port of Chabahar giving India access to Afghanistan and Central Asia through an overland route that links the port in Southeastern Iran with the Afghani borders Northeastern Iran. Iran has partially developed part of the project from its side up to the Afghani borders, while India is committed to undertaking the other part inside Afghanistan. However, the increased Western sanctions on Iran over its nuclear program and India's fears of facing international sanctions caused it difficult for both countries to make progress in advancing the project. In 2016 the Western sanctions were lifted opening up an opportunity for the two sides to sign a new contract to develop the Chabahar port on May 23, 2016, in Tehran with the presence of the presidents of Iran, Afghanistan, and the Indian Prime Minister.

The former Iranian government invested about 150 billion Tomans (\$42.8 Million) on developing the port <sup>(1)</sup>. The current government will accomplish the rest of the project. It allocated 4500 Billion and 500 Million Real (\$128.5 Million) <sup>(2)</sup> and accomplished 57% of the project. Upon completion of the port's infrastructure agreed on by the end



Source: Google Maps

of 2018, the Iranian officials expect Chabahar port to handle about year 8 million tons of cargo every year <sup>(3)</sup>.

The Indian role in developing the port is bigger than the Iranian one due to the significant benefits and gains it seeks to achieve through utilizing of the port. The Iranian-Indian agreement is totaled \$235 million as investments utilized to improve Chabahar port with other Indian commitments to increase its investments up to \$2 billion in case the project needs more financing. The bilateral agreement between India and Iran gave India the right to invest \$85 additional million to the previous \$235 million in developing of two berths of Chabahar port that will refurbish a 640 meter long container handling facility in addition to three more berths for various purposes to transport goods and different energy resources, and a supplement of \$150 million credit to Iran to provide the equipment and utilities needed for the port.

The contract is valid for 10 years and is renewable. India has the right to utilize the port upon completion during this period then the working equipment ownership goes to Iran after the ten-year validity. According to the agreement, the berths will be developed in 18 months with a two-year grace period at which India does not guarantee the port to handle goods during this period. By the third year of operation, India guarantees handling of 30,000 TEUs and aims to handle 250,000 TEUs by the beginning of the tenth year <sup>(4)</sup>.

India is planning to lay a railroad track to transport containers from Chabahar northward until the Afghani borders for more than 500 Km through Zahedan the capital of Sistan and Baluchistan province that links Zahidan with the rest of the Iranian railroad lines. India also offered to supply \$400 million worth of steel towards the construction of railroads in Iran <sup>(5)</sup>.

On the other hand, Iran granted 50 acres of the coastland in Makran province (South Iran on the Indian Ocean) and gave them significant facilities to invest in the free zone of Chabahar. 130 investment companies have been registered to invest in this free zone, which refers to the eagerness of the Afghani investors to achieve a bigger presence on the Iranian coasts on the Indian ocean and bypass the Pakistani port of Karachi; their only passage to the Indian Ocean.

At the same time, Iran seeks to promote the project and attract investments to Chabahar from other countries like Japan that has shown interest in cooperating with India in developing the port and constructing Industrial complexes for exporting purposes. In fact, Japan is interested in turning this area into a trade center and the

port of Chabahar into a regional center to transport goods into Iran, Afghanistan, and the Central Asia countries. In addition to that, Germany also announced its interest in participating in a bid to develop the second stage of the port and offered cooperation between the German Company Siemens and Iran in developing the railway lines and other means of shipping and transportations.

### **The Importance of Chabahar for India**

India has signed the trilateral agreement of Chabahar and invested millions of dollars in developing the port. It also announced its readiness to pay additional millions to fulfill its economic, political, strategic, and security ambitions. Although an Iranian project, we will first analyze the Importance of Chabahar port for India.

Economically, India will achieve many strategic gains through utilizing the Iranian port of Chabahar such as:

1. India will bypass Pakistan and have direct access to the Afghani and Central Asian markets. It is planning to establish a trade route from the Indian ports on the Indian Ocean to Chabahar port southeastern Iran. Then the route will be extended through a railway and overland network to Afghanistan and the Central Asian countries such as Azerbaijan, Tajikistan, Turkmenistan, and may be to Russia in the future.

Due to the historical rivalry between Indian and Pakistan, India's trade access to Afghanistan has been thwarted by Pakistan although the agreement between the two sides concerning transit and passage of goods; consequently, India found Chabahar as an alternative route to bypass Pakistan and ensure easy movement of goods between India and the Afghani and Central Asian markets.

2. India is the fourth largest energy consumer in the world. It seeks access to gas from Turkmenistan, which is made possible by Chabahar port. It also aims to establish oil and gas pipeline underneath the Indian Ocean that extends from the West Indian coasts to Chabahar port and the Omani coasts. When India gains access to Turkmenistan, it will have a trilateral shipping and support group <sup>(6)</sup> that includes Oman, Iran, and Turkmenistan to guarantee the flow of energy sources from different resources. At the same time, India can stop negotiating with Pakistan over extending the India-Turkmenistan pipeline that is rejected by Pakistan to pass through its lands.

In fact, India took real steps to accomplish its plans and ambitions. Last year the Indian Prime Minister Narendra Modi visited Iran, Oman, Turkmenistan, and Uzbekistan to establish a ground base for a multilateral agreement to transport natural gas from these countries to the port of Chabahar and then to India through pipelines. India aims

to support its considerable productivity and maintain its 7.2% economic growth rate that is the highest in the world. It also announced exploiting more investments in the Iranian gas fields but this offer was rejected by Iran due to concession rights. Indeed, the visit of the Indian Prime Minister in July 2015 resulted in seven different agreements with three countries concerning natural gas and manufacturing of gas-based fertilizers.

3. Through its relationship with Turkmenistan, India has other goals such as gaining the Turkmen support to join Ishq Abad agreement (in reference to Turkmenistan's capital) concerning trade, transportations, and transit. This agreement includes Iran, Uzbekistan, Turkmenistan, Kazakhstan, and Oman or the so called The Northern-Southern Transportations Route (NSTC) that links Central and Southern Asia with Europe, giving India access to new markets in these countries and then in Russia and Europe. Through its long-term plans, India aims to start from the Iranian province of Mashhad (Northern Iran and near the Turkmen borders) up to Russia via the Central Asian countries, then to Europe via the Baltic countries because India does not have access to these territories except via this route <sup>(7)</sup>.

According to the studies of the profitability of the Northern passage (NSTC); this route not only saves 60% of the time and 50% of the cost in compare with the usual sea routes between India and Europe but also allows India to bypass its bitter rival Pakistan <sup>(8)</sup>.

On the political and strategic levels, India aims to bypass Pakistan and reduce the Pakistani political and economic influence in Afghanistan; the Indian trade and political ally. Due to the Afghani reliance on the Pakistani ports to get to the international waters, the Afghani foreign policies consent to the Pakistani policies to a certain extent. But with the availability of an alternative to the Pakistani ports, Afghanistan can be released from the Pakistani constraints, leading to strong relations between India and Afghanistan and reduction of the Pakistani-Chinese influence in the region.

In a recent study, the Australian Research Center, Future Directions <sup>(9)</sup> revealed that India will soon be the Russian Strategic ally in the region. Russia seeks to acquire an Asian ally on the expense of China, and this ally shall be India. The study titled "Bypassing Pakistan: Afghanistan, India, Iran, and Chabahar" reveals that although the Chinese-Russian cooperation known to everyone in relation to foreign policy and preserving the international balances against the American supremacy, Russia, and China distrust each other and each is trying to establish a sphere of influence in Asia. China wants to restore the ancient trade route called "The Silk Road" through the Asian countries up to the rich European markets, while Russia is still looking at the former Soviet Union

countries as its sphere of influence. In light of the rivalry between both countries over expanding their spheres of influence and rapprochement between Russia and India, Russia shall prefer India as an ally to reduce the Chinese influence in the region in exchange for a Russian assistance to India to achieve its economic goals and penetrate to the European markets, especially to Eastern Europe.

On the security level, India is ranked the fourth largest energy consumer in the world and a growing industrial power that desperately needs huge resources of energy. The various energy resources guarantee the highest rate of energy and economic security in light of the frequent security and political unrests in the Middle East and in some other oil exporting countries. This ensures operation of its productive institutions in case of any energy supplies cuts for any reasons. In addition to that, the reliance on various energy resources gives it more independence in political and economic decision-making noncompliance with the energy-exporting countries policies and interests.

### **The Importance of Chabahar for Iran**

The importance of Chabahar port to Iran lies in the privileges and gains it provides to this country.

1. On the trade level, Iran aims to be a transit area and passage of goods to the neighboring countries and those benefiting from the port through the overland roads and railways extended from Chabahar to Afghanistan and Central Asian countries up to Russia. Chabahar port saves time and cost of the final products and transporting goods between Iran and other countries. It can also be utilized in transporting the Iranian non-oil products and selling them in the Indian and Afghani markets, in addition to increasing the Iranian imports from India, especially the technological products needed to be used in the industrial complexes in the free zone of Chabahar.

Moreover, the overland roads and railways are expected to contribute to the development Sistan and Baluchistan province that is deprived of many basic services available in the rest of the Iranian districts. This province is inhibited by Baluch minorities that share the Arab and Kurdish minorities in the state of deprivation of several services given to the rest of the Iranian people.

2. Iran is willing to achieve comprehensive economic development to solve its financial crises after loosening the international sanctions against it at the beginning of this year. The international trade embargo resulted in many economic and social problems such as inflation, unemployment, corruption, smuggling, deterioration of domestic industries, and severe decline of oil exports.

The energy sector is the heart of the Iranian economy. It is the most vital sector and makes the most of the Iranian revenues next to taxes. One of the Iranian major goals in developing Chabahar port is to improve the energy sector and increase its oil exports. Iran also aims to regain its market share in the oil market it lost to other producers during sanctions and increase exports in the future<sup>(10)</sup>, especially to India. Last August the Iranian oil exports jumped to their highest level since 2012<sup>(11)</sup> due to the amounts sold to India that totaled 576 thousand barrel per day, which is the highest amount sold to this country over the past 15 years<sup>(12)</sup>. The importance of Chabahar port lies in receiving and reloading gas and oil on giant tankers to the rest of the world. Iran and India also have plans to establish a pipeline that extends from Chabahar port directly to the Indian coasts to transport the Iranian gas and oil to decrease transportations costs, which means that both sides will sign a long-term trade partnership in energy supplies to regain the high institutional costs of this pipeline.

Although the abundant amounts of oil supplies in the international markets and the exporting countries trend toward decreasing production to increase prices, Iran is insisting on going against the current through increasing its exports of crude oil, and refusal of production freeze at the last two meetings of OPEC to raise prices under the leadership of Kingdom of Saudi Arabia. The first meeting was held on the seventeenth of April of this year in Doha when Iran refused a Saudi request for production freeze leading to the failure of OPEC meeting. The second time in the consultative meeting on the eighteenth of September of this year in Algeria at which the Iranian oil minister stated openly that Iran does not have the intention for production freeze before getting to the same levels of exports of that before the international sanctions against his country. Iran adopted this position although suffering big losses due to the decline in oil prices because of the negative impact of the international sanctions against it<sup>(13)</sup>, and the need for higher prices to support its economy in light of the absence of financial reserves like those of Saudi Arabia and the other Gulf countries. Some analysts believe that through this position, Iran aims to compete with Kingdom of Saudi Arabia in the Indian market and other markets in light of the political and regional rivalry between the two countries.

**3.** Iran is not only targeting the Indian market- the second biggest importer of the Iranian oil after China- but also aims to attract the greatest amounts of international investments- Indian and other- to build oil and nonoil industrial complexes and other investments in the Iranian oil and gas fields under Iranian terms and conditions.



The Iranian foreign minister, Mohammad Javad Zarif frequently implied in his statements concerning investment in the energy sector to some Indian suggestions about developing the Iranian gas field Farzad B at the Arabian Gulf that was discovered by Indian specialists in 2008 but delayed due to the international sanctions against Iran. In addition to that, giving India the right to develop the field in exchange for some privileges was rejected inside Iran.

In fact, the Indian investment amounted to \$3 billion to develop the first phase to produce one billion cubic feet from this field, but negotiations are still running between the two countries concerning the trade privileges between both sides in addition to the joint investment on the favorable basis and avoiding tax duplication.

#### **4. The strategic importance of the Chabahar.**

Chabahar is the first Iranian port outside Hormuz Strait (to the east of the Strait) that is crowded with heavy trade vessel traffic and oil tankers. It guarantees an easy and swift passage of goods and oil to and from the port. In addition to that, the location of the port outside Hormuz strait that is exposed to frequent political unrest gives it flexibility in the decision-making process on all levels, and allows it to continue its economic interests in case the strait is closed down due to an American-Iranian conflict in light of the periodic tensions between the two sides.

Moreover, the project has many other strategic goals for Iran. Chabahar is another episode in the Saudi-Iranian rivalry. What impairs Saudi Arabia and its major allies in the region is a significant gain for Iran. In fact, Pakistan is a strong political, economic, and military ally to Saudi Arabia. Upon completion of the port, Iran and its ally India will be able to bypass Pakistan and decrease its political and economic influence in the region, which will be a coin of two sides for both Iran and India, especially if they succeed- supported by Russia- in forming economic blocs and increase their influence in the Central Asian region and impose economic isolation on Pakistan, the Saudi ally<sup>(14)</sup>.

#### **The importance of Chabahar for Afghanistan**

Afghanistan is a land-locked country that does not have access to sea ports except through the Pakistani port of Karachi. Chabahar is an alternative trade route for Afghanistan against the only available via Pakistan. For long, Afghanistan has relied on the Pakistani port of Karachi, which exposes the Afghani trade to dangers and the possibility to stop at any time due to the political and economic tension between the two countries.

Chabahar will end the Afghani dependence on Pakistan and provides it with more

choices for any future political and economic movements. Afghanistan expects to increase its exports and imports although the port of Karachi is about 100 kilometers closer to get to the Indian Ocean than Chabahar, which is 900 kilometers away from the Afghani borders. Although the Afghani trade ministry announced readiness of about 150 Afghani businessmen to invest in the Iranian port of Chabahar because of the low cost of transporting containers to Chabahar of about 500-1000 USDs less than the port of Karachi.

More importantly, Afghanistan can guarantee security and safety of its goods and maintain its trade freely without limitations and obstacles, or influenced by other countries tensions such as India and Pakistan <sup>(15)</sup>.

According to the trilateral agreement, India, Iran, and Afghanistan agreed to jointly develop transportation links between the Iranian port of Chabahar and Afghanistan and lay a railroad track along this route to expand trade to Central Asian countries. This agreement will allow the Indian goods to get to Afghanistan freely without obstacles. It will also provide a safe passage to transport the Afghani products abroad and will contribute to creating constructional development in the investment areas and trade routes of the project. Afghanistan will also have access to other Asian countries and transport crude materials and energy resources to these countries, especially in India after bypassing its rival Pakistan.

### **Future of the project**

In case the three sides of the agreement are committed to their obligations, the port will definitely be a paradigm shift for these countries on the strategic and economic levels as stated hereinbefore; although, there are some threats that might jeopardize the expected goals and future of the project such as:

1. There are Indian fears from an Iranian-Chinese rapprochement that might put the Indian goals at risk since China comes within the Iranian priorities for being the biggest importer of the Iranian oil and is ranked before India. In addition to that, Iran did not openly object the Pakistani-Chinese cooperation in constructing the Pakistani port of Gwadar that aims to create a trade link with the Chinese Xinxiang for about \$46 billion, and described it as the twin brother of Chabahar <sup>(16)</sup>. Moreover, Iran has signed several trade and energy deals with Pakistan, the Indian rival, and signed another agreement to stop their trade exchange in the dollar and replace it with the domestic currency of both countries last October <sup>(17)</sup>. Such steps are taken by countries that are eager to remove all obstacles and

enhance their trade and economic cooperation, meanwhile, India aims to reduce the Pakistani and Chinese influence in the region. In addition to that, Pakistan can use its strong relations with China as leverage on Iran to eliminate the Iranian Chabahar port's competition to the Pakistani port of Gwadar and limit the influence and gains of India by using the Chinese paper as the biggest importer of the Iranian oil. To Iran, China is a strategic ally that cannot be bypassed, especially after lifting the international sanctions on Tehran <sup>(18)</sup>. At the same time, Chabahar is one of many projects Iran is planning to develop in cooperation with major regional partners without losing one partner at the expense of another.

On the other hand, India sought to increase its oil supplies to maintain its significant annual growth rate that amounts to 7.2%. It offered to develop some of the Iranian major oil fields but was rejected by Iran. Many experts in South Asia asserted that the growing relations between India and Iran will not be at the expense of the Indian relations and interests with the US and its allies <sup>(19)</sup> because the security and economic relations between India and the US are so strong unlike the periodic tense US-Iranian relations that might expose the project to cancellation in case new sanctions are imposed on Iran when it does not stick to its commitments toward its nuclear program. Based on that assumption, some Indian experts fear that relying on the Iranian commitments toward India might lead to an unexpected frustration of the Indian goals.

As for Afghanistan, it is part of the trade route headed to Russia and Europe and a key member to achieve the Indian-Iranian goals but, at the same time, it could be the main obstacle toward completion of the project due to the chaotic and unstable conditions in this country, which might expose the whole project to constant dangers and layovers once targeted by the armed groups.

### **Conclusion:**

In reference to the trilateral agreement between India, Iran, and Afghanistan, India agreed to invest \$250 million in developing the Port of Chabahar in the form of infrastructure, docks, and operating equipment in addition to \$400 million to build the railroad that extends from the port to Afghanistan. According to the Iranian authorities, 57% of the port has been completed.

For Iran, Chabahar port will be a major facility to achieve its goals in increasing its oil and gas exports regardless of prices, which was evident in the Iranian previous positions during OPEC meetings in addition to its desire to compete

with Saudi Arabia over its oil market share. Chabahar port will also allow Iran to be a fast transit route for goods from the Indian Ocean to Central Asia by laying railroads from the port to Afghanistan. In addition to that, the strategic location of the port outside Hormuz Strait provides a faster transportation movement outside the narrow strait that is crowded with ships and constant operation of the Iranian businesses and interests in case of closing down the Hormuz Strait in the worst situations.

For India, Chabahar port will enable it to end the Pakistani influence on its trade with Afghanistan and bypass the Pakistani port of Karachi. Chabahar also gives India access to Turkmenistan, the gas-rich country and allows it to gain the Turkmen support in joining the agreement of Ashq-Abad or the South-North passage (NSTC) to save time and cost of shipping and transportation of goods. Moreover, India will have access to the Central Asian markets and possible access to Russia and Europe through an overland route. Most importantly, India aims to reduce the Chinese trade and political influence in the region and increase rapprochement with Russia to achieve the joint goals between the two countries.

For Afghanistan, it will have sea access to the rest of the world and bypass the only available choice via the Pakistani Port of Karachi. In fact, Chabahar would reduce the Pakistani influence and domination of the Afghani policies and increase its trade with India and Iran. The project will also contribute to the development of territories along the railroad inside Afghanistan, which will be a gateway for the Indian and Iranian trade to the Central Asian markets and vice versa. No project is free of challenges and possibility of incompleteness. The positive achievements of the Iranian port of Chabahar for India and Afghanistan are accompanied by threats and risks such as the absence of trust between all sides in committing to the articles of the agreement and the security issue in some member countries such as Afghanistan. Moreover, the international changing situations toward Iran and its rivalry with the US and the West, and the influence of the Indian-Iranian rapprochement on the strong Indian relations with the US and the West jeopardize the goals of the trilateral agreement of Chabahar.

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