

**REPORT**

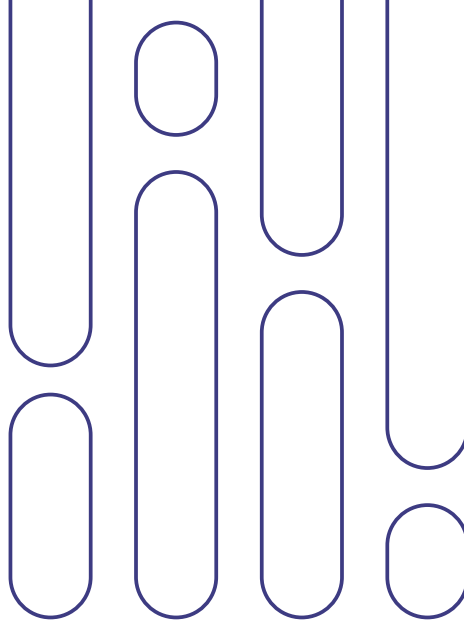
# **US and Intersecting Interests With India in the Chabahar Port Agreement**

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On May 13, 2024, Indian Minister of Ports, Shipping and Waterways Sarbananda Sonowal and Iranian Minister of Roads and Urban Development Mehrdad Bazarbash signed a long-term [agreement](#) to operate the strategic port of Chabahar in Iran. This agreement marks a significant move for New Delhi to strengthen its ties with Iran and establish broader trade connections with Central Asia. While the agreement is crucial for both countries, it also has far-reaching implications for global powers; the United States and China, with the latter viewing this project as a potential threat to the Belt and Road Initiative (BRI) as well as other Chinese port projects in the region. This report aims to unpack the nature and significance of the agreement for India and Iran and examine the potential impact of the US position on this development. By exploring these various dimensions, the report seeks to provide a comprehensive understanding of the strategic and economic implications of the Chabahar port agreement.

## **The Agreement's Background and Contexts**

The agreement signed by India and Iran for the operation of Chabahar port is viewed within the framework of several key contexts, the most important of which are:

- **A stalled project despite US exemptions:** The cooperation project between Iran and India regarding Chabahar port [dates](#) back to 2003 when then-Iranian President Mohammad Khatami visited India. However, the project gained significant momentum in 2016 when the two countries signed an agreement to develop the port. India allocated \$12 million from its annual budget to advance the project. Despite this, progress was slow, and the project largely remained in limbo. The project's first phase at

the Shahid Beheshti station was completed in 2017, benefiting from the atmosphere of openness and the lifting of sanctions following the 2015 Iranian nuclear deal. However, the remaining three phases were suspended due to the United States' withdrawal from the nuclear deal in 2018.

Although the United States granted India an exemption to continue its investments in Chabahar port, aligning with their shared goal of countering China's BRI and its influence in Central Asia and beyond, India did not fully capitalize on this opportunity. Comprehensive US sanctions on Iran hindered significant progress. Consequently, the Chabahar port project remained limited, with only a few shipments facilitated. For instance, the port contributed to shipping 20,000 tons of wheat aid to Afghanistan in 2023 and supplied Iran with environmentally friendly pesticides in 2021.

**Table 1: The Phases of Chabahar Port's Development**

<b>Period</b>	<b>Accomplishment</b>
1970s and 1980s	The vision for developing Chabahar emerged
2003	Iran and India signed an ambitious roadmap for strategic cooperation, which included developing and expanding Chabahar port. This roadmap also outlined plans for connecting land routes from the port in southern Iran all the way to the Afghanistan border in north-eastern Iran
<b>The Stagnation Period</b>	
2004-2015	The project was undermined amid escalating Western sanctions against Iran, with India holding back to avoid facing sanctions
<b>Progress and Completion Phase</b>	

2015	After the signing of the Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1, the development of Chabahar port gained new momentum.
2016	In May 2016, a tripartite agreement was signed between India, Iran and Afghanistan to establish an international transport and transit corridor. Following this agreement, India worked at a rapid pace to develop the Chabahar project.
2018	Despite the US withdrawal from the JCPOA, India managed to obtain an exemption from the US for the Chabahar project and related infrastructure projects.
<b>Operation Phase</b>	
2024	A 10-year agreement was inked to operate Chabahar Port.

- **A New Agreement to Overcome Sanctions:** On May 13, 2024, India signed a 10-year long-term contract with Iran after years of negotiations and Iranian pressure. The agreement aims to develop, equip and operate container and general cargo terminals at Chabahar port. This [new contract](#) replaces the initial 10-year contract and includes provisions for automatic renewal, establishing a permanent general framework for cooperation to ensure the unhindered implementation of the project. The understanding between the two sides includes cooperation in the context of the International North-South Transport Corridor (INSTC), with Chabahar port fundamental to its effectiveness. Additionally, India will provide Iran with a \$250 million loan to develop a terminal in the port. India Ports Global Lim-

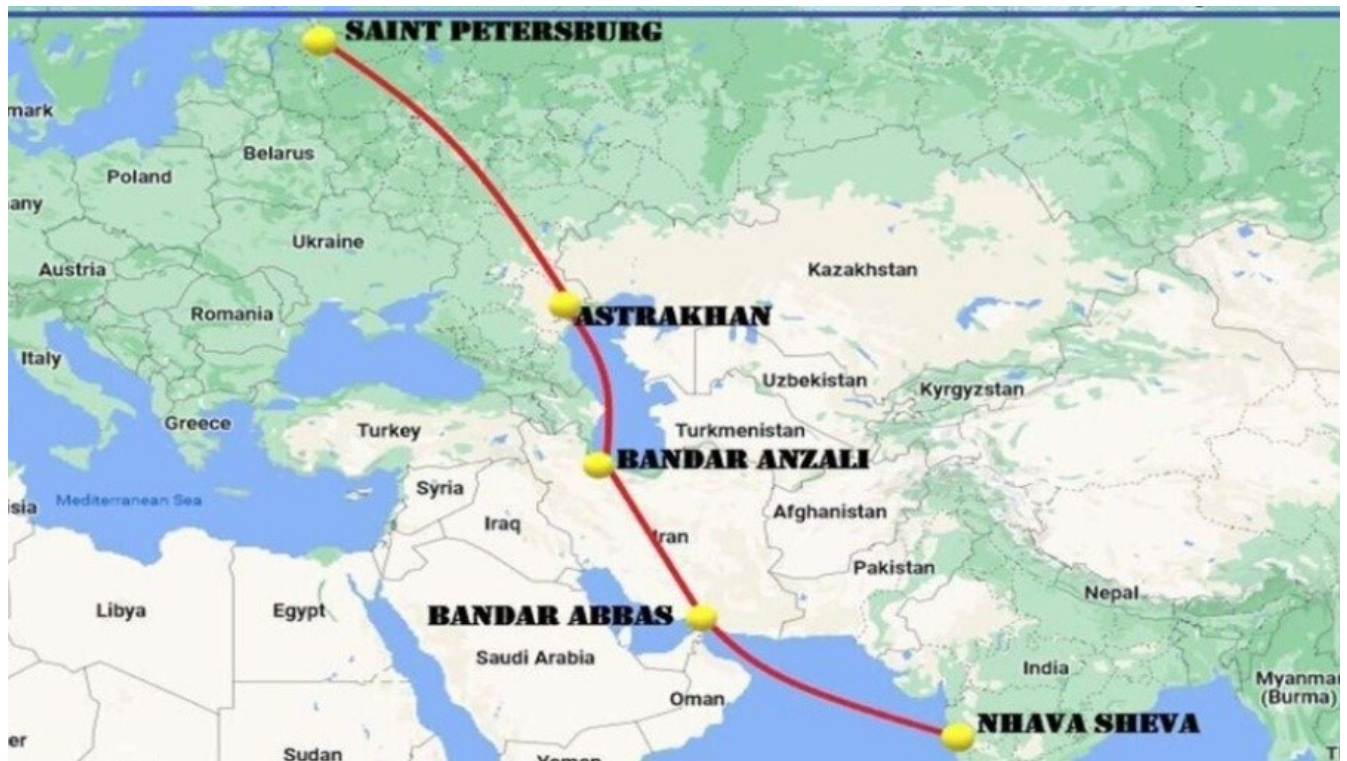
ited will invest \$370 million in providing strategic equipment and developing transportation infrastructure in the port. In return, India will be provided with a lease contract lasting up to 10 years, granting New Delhi administrative control over a part of the port.

- **Competing with China's BRI:** According to the agreement, this marks India's first port operation abroad. Chabahar port, seen as India's main link to Afghanistan, Central Asia and the larger Eurasian space, will help balance Pakistan's Gwadar port and counter China's BRI. The agreement includes plans to connect Chabahar to the INSTC, which links India to Russia via Iran. This connection will enable India to bypass Pakistan to reach Afghanistan and prevent China from encircling the competing Indian economy. It is worth noting that India's share in important Asian markets represents less than 1% of its total foreign trade. India is also interested in developing its relations with Iran due to its strategic geographical location on the global communication routes map and its vast oil resources. China has signed a 25-year strategic partnership agreement with Iran, securing the supply of Iranian oil at competitive prices despite sanctions. In contrast, India has been unable to access Iran's cheap oil due to US pressure and fear of sanctions on its oil exports. However, New Delhi still views the relationship with Iran as a critical opportunity to strengthen its regional position and interests in confronting China, including the global cross-border communication network across the region. Furthermore, the Biden administration's lenient policy toward Iran and its reluctance to strictly enforce sanctions have given India the green light to proceed with this agreement. India has been more willing to cooperate with Iran in spite of US sanctions, particularly given the



US response to Russian breaches of Western sanctions.

## Map 1: INSTC

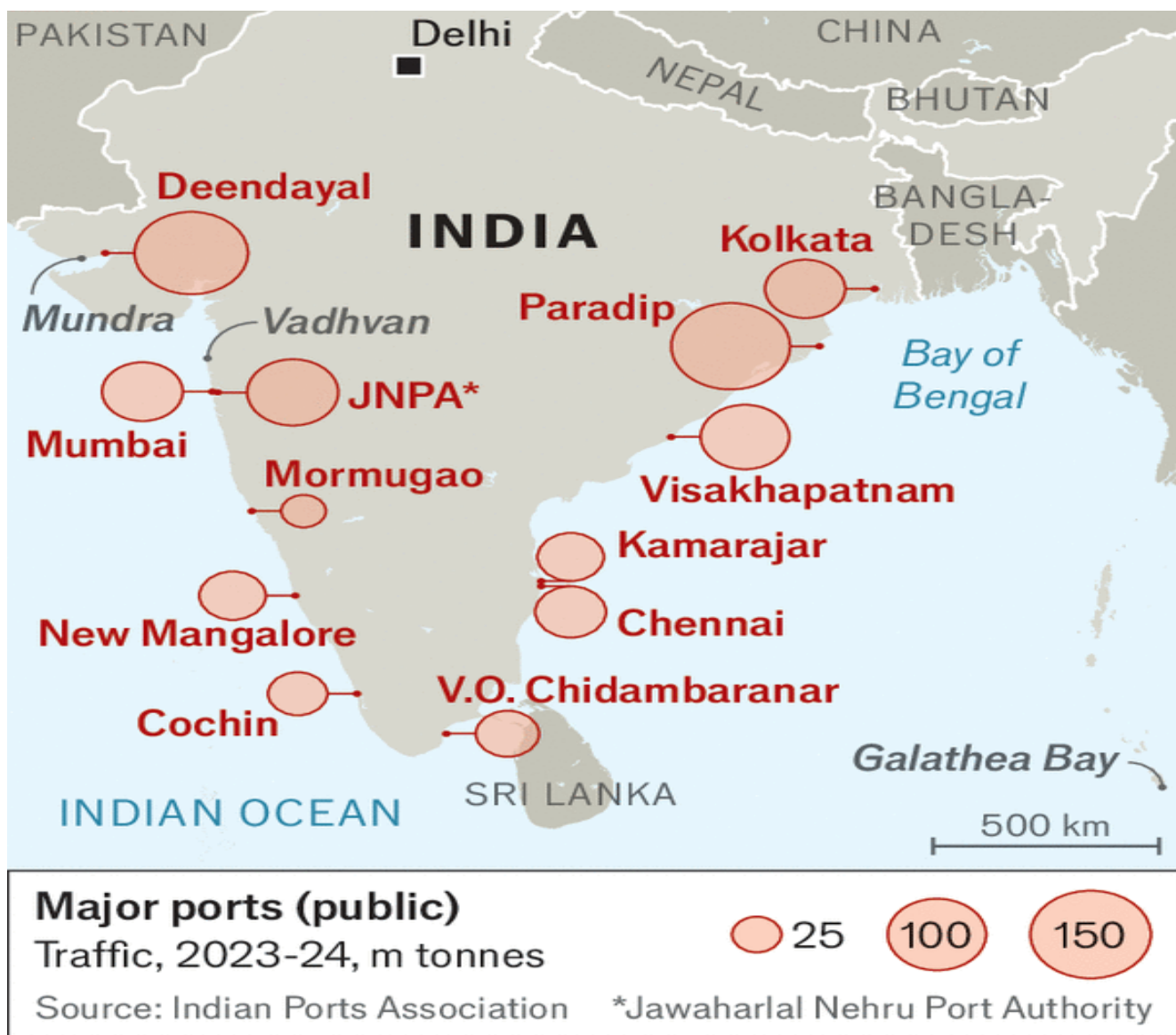


*Source:* Bne, Intellinews.

- **Indian aspirations to become a hub for global corridors:** The agreement aligns with and complements India's extensive national efforts to develop the country's infrastructure, particularly its ports. Significant advancements have been made in Indian ports, with their capacity doubling over the past decade from 745 million tons to more than 1,600 million tons. This growth in port capacity has been accompanied by a substantial increase in traffic and a reduction in working hours. Moreover, India has improved its position on the World Bank's "Logistics Performance Index," rising from 54th place 10 years ago to 38th place in 2023. This improvement reflects India's strategic plan to enhance its trade connectivity and logistics efficiency. The development of Chabahar port is a critical component of this

broader strategy, aiming to bolster India’s trade links with Central Asia, the Middle East, and beyond.

## Map 2: Indian Ports — Major Developments



*Source:* The Economist.

Disrupting trade flows in the Red Sea: The agreement comes at a [crucial time](#), as international trade routes face significant disruptions due to ongoing developments in the Red Sea region. Attacks by the Houthis on ships passing through the Bab al-Mandab Strait, the Red Sea and the Indian Ocean have adversely affected Indian trade. Additionally, there is uncertainty



surrounding the India-Middle East-Europe Economic Corridor (IMEC) due to the Israeli war on Gaza and the resulting tensions that have impacted this project. Therefore, the agreement to develop and operate Chabahar port represents a strategic move by India to navigate these challenges. By securing an alternative trade route through Chabahar, India aims to mitigate the risks posed by the instability in the Red Sea and find reliable pathways for its trade. This agreement not only addresses immediate concerns but also provides a potential solution to future obstacles in India's proposed corridors between the East and the West.

## **India and Iran's Gains From the Agreement**

The agreement offers Iran and India key interests such as the following:

- **Repositioning of India within global trade networks:** The agreement fortifies India's standing in global trade and maritime networks, providing Indian products a crucial conduit to penetrate Afghanistan and Central Asian markets. Through the INSTC, in which Chabahar port plays a pivotal role, India can establish a 7,200 kilometer (4437 miles) multimodal route connecting it with Iran, Afghanistan, Armenia, Azerbaijan, Russia, Central Asia, and Europe. With Central Asian nations, notably Kazakhstan, representing lucrative markets and possessing abundant oil resources, India sees an opportunity to expand its trade footprint. This agreement is instrumental for India's future trajectory and countering China's expanding influence in the region, which New Delhi perceives as encroaching on its economic interests and strategic space. As India strives to assert

itself as a leading power, countering Chinese encroachment is imperative, particularly amid Beijing's investments in Pakistan and the Gulf region under BRI, which are perceived by Indian authorities as Chinese moves to sideline or isolate India economically.

- **Bypassing Pakistan to reach Central Asian markets:** The agreement is a vital component of New Delhi's strategy to sidestep Pakistan and access Central Asian markets, a goal thwarted by longstanding tensions with its neighbor. This Indian imperative has been further driven by China's BRI, epitomized by the development of Gwadar port in Pakistan which is a key part of the China-Pakistan Economic Corridor (CPEC). China's extensive investments, exceeding \$50 billion, in Pakistan's transportation and energy infrastructure, coupled with plans to link Pakistani railways to Afghanistan, underscore its deepening influence in the region. Chinese trade with Central Asian nations surged to \$90 billion in 2023, a stark contrast to India's billion dollar trade volume. Chinese customs data reveals a 27% increase in trade with Central Asian nations in 2022, highlighting Beijing's expanding economic sway in the region.

- **Countering China's clout in Iran and Afghanistan:** India views China's expanding influence in Afghanistan with apprehension, fearing Beijing's potential dominance over Kabul's rare earth minerals, crucial for India's economic interests. India seeks to prevent Iran from falling into China's sphere as its strategic ports provide access to the Arab Gulf and Central Asia. However, China's recent 25-year strategic partnership with Iran and the establishment of a direct shipping line to Chabahar, encompassing Shahid Beheshti and Shahid Kalantari ports, challenges India's foothold. While India's investments are confined to Shahid Beheshti port, China's extensive involvement in Iran,

marked by significant investments and strategic agreements, positions Chabahar as a potential asset in the BRI. Moreover, China's influence in Iran strengthened after it helped facilitate Iran's diplomatic re-engagement with Saudi Arabia. Consequently, India aims to enhance trade ties with Russia via Iran, contingent upon the development of Iranian logistical projects, including the Chabahar-Zahedan and Rasht-Astara railway lines, both awaiting investments for over two decades.

- **Enhancing Iran's position on trade lines and boosting its deteriorating economy:** The agreement marks a [significant stride for Iran](#), bolstering its international stature and fostering a delicate balance in its collaborations with China and India. Iran aims to fortify its global standing, mitigate isolation and amplify its economic and diplomatic influence by aligning with both nations. With Chabahar serving as a linchpin in Iran's vision to become a pivotal global transit hub, the agreement holds promise for Iran to bolster its role in the international arena. Chabahar's strategic significance as Iran's largest seaport underscores its pivotal role in the INSTC, linking Indian trade with northern regions via Iran. Moreover, Iran's 25-year strategic partnership with China, involving the commitment to develop the Makran coast and Jask port, cements its integral role in China's BRI. The agreement also paves the way for Iran to leverage its cooperation with India to operate the port, potentially disrupting the trade corridor between India and Europe via the Middle East. Amid volatile international and regional dynamics, Iran sees this collaboration as a strategic opportunity to offer alternative trade routes and circumvent obstacles to economic activities. Iran is banking on Indian investments to

revitalize its struggling economy, viewing the agreement as a lifeline amid Western sanctions. Beyond mitigating the impact of sanctions, the agreement heralds a profound strategic partnership with a heavyweight global player, promising a boost in income through the increased transit of foreign goods. Anticipated to double trade flow, the agreement will facilitate Iran's access to burgeoning East Asian markets, addressing the region's escalating import demands. With Chabahar witnessing a surge in imports and exports, reaching over 4 million tons in 2023, the port's pivotal role in Iran's trade landscape is evident. Moreover, the agreement bolsters Iran's maritime sector, a cornerstone of its broader strategy to boost international relations. Indian investments hold the potential to catalyze shipping partnerships, hence bolstering transit traffic and enabling Iran to diversify exports to East Asia amid US sanctions. While the agreement's monetary value may not herald a quantum leap in terms of investments in the port's development, it stands as a crucial boost for Iran amid limited avenues to attract foreign investment.

- **Neutralizing a Western ally via common interests:** By fostering stronger ties and shared interests with India, Iran stands to gain a powerful international ally. In turn, India may adopt a more pragmatic stance toward its relationship with Iran, potentially at the expense of its Western ally, the United States. Such dynamics could bolster Iran's position and provide leverage in its standoff with the United States, potentially diminishing the efficacy of US pressure and sanctions. This shift in India's approach could offer Iran a lifeline, opening up new avenues to circumvent sanctions and diversify its oil exports.

## US Considerations and Their Impact on the Agreement

Despite the agreement's potential mutual benefits for both India and the United States, Washington has not endorsed it. Indian companies were cautioned by the United States about the risk of facing sanctions if they engaged in investments with Iran. US State Department Spokesperson Vedant Patel emphasized this, stating, "Any entity engaging in commercial deals with Iran must be aware of the potential sanctions risks involved." However, India appears confident that US opposition will not obstruct the project, as it serves broader interests beyond simply enforcing sanctions on Iran. [Indian Foreign Minister Subrahmanyam Jaishankar remarked](#), "The US has historically recognized the significance of Chabahar, so we will proceed with this regard."

The controversy surrounding the agreement has prompted speculation about its future implementation, particularly given Washington's history of pressuring India. Previously, the United States urged India to halt its imports of Iranian oil post-nuclear deal withdrawal and even disrupted the 2016 Chabahar port development agreement despite granting India an exemption. However, the agreement's efficacy hinges on intersecting interests, which could render its implementation feasible irrespective of US-Iran relations. In this light, we can highlight the opportunities and challenges of the agreement as follows:

- **The opportunities, in light of US priorities in countering China and India's independent foreign policy line:** The United States sees India as crucial in countering China regionally, aiming to create a geographical blockade against China's ambitious projects like the BRI, which bolster China's global influence. In-

India's investments in Chabahar port, despite US-Iran tensions, are pivotal as they reinforce efforts to contain China's power and challenge its commercial interests not just in Central Asia, but across the broader Indian Ocean region, extending to the Middle East and Africa. There is a clear US inclination to position India as a primary hub for global supply chains, as evidenced by initiatives like IMEC. India's role in the quadripartite alliance, spearheaded by the United States in the South China Sea and East Asia, up to the Indo-Pacific, is instrumental. With its intelligence prowess, maritime influence and regional clout, India provides a crucial balance within this alliance. This underscores India's indispensable role in countering China and advancing US interests regionally and globally, a position that Washington values enough to abstain from imposing sanctions on India despite its independent foreign policy that sometimes conflicts with US interests, such as its relationship with Russia and its stance on Iran and Chabahar port. On India's part, the Chabahar port holds significant strategic importance as it serves as a counterbalance to China's BRI, which runs through Pakistan's Gwadar port, aiming to connect to Central Asia, Russia, and beyond. This strategic move could potentially undermine China's economic influence in the region.

The Chabahar agreement also underscores India's pursuit of an [independent foreign policy stance](#), distinct from Washington's global agenda, rooted in its historical tradition of non-alignment. India harbors aspirations to reform the US-dominated international system and secure a seat among the world's great powers. It cultivates alliances with organizations often perceived as adversarial by the West, such as BRICS and the Shang-



hai Cooperation Organization. India's relationship with Russia exemplifies its divergence from Western norms; despite Western pressure, India maintains robust ties with Russia, serving as a major importer of Russian military equipment and a potential destination for Russian oil amid sanctions. India's status as a significant power in the Global South, coupled with its strategic geographical and demographic significance, further solidifies its aspirations for global influence. However, India's pursuit of an independent foreign policy is not without challenges. Concerns persist regarding the compatibility of India's interests with those of the United States. Recent US overtures toward Pakistan, perceived as hostile by India, and the lack of coordination in US withdrawal from Afghanistan, which bolstered China's influence in the region at India's expense, have strained the Indo-US partnership. Furthermore, India remains apprehensive about potential shifts in US domestic policies that could alter its relationship with India in the future, as US presidents navigate evolving foreign policy priorities and geopolitical dynamics. These factors underscore India's cautious approach toward its alignment with the United States and its commitment to safeguarding its strategic interests in the region.

- **Challenges in light of US sanctions and crippling infrastructure in Iran:** Despite the exemption of Chabahar port from US sanctions, [significant challenges](#) loom over the project's success. Iran's inclusion on the Financial Action Task Force (FATF) blacklist and its restricted access to the SWIFT financial system pose formidable hurdles to the port's development and expansion. Under sanctions, Iran faces constraints in accessing financial resources from India and struggles to export oil to settle its debts. Non-oil trade between the two countries heavily

favors India, with Iran's imports from India surpassing its exports by about \$1 billion in 2023. Moreover, logistical obstacles are abundant. The port is located in an area marked by unrest and armed confrontations with Balochi separatist groups, complicating operations. Challenges persist with the development of the Chabahar-Zahedan railway project, a vital component for land transport, which currently handles a modest volume of goods. Transporting goods from India to Afghanistan and Central Asian nations is fraught with difficulties, resulting in increased costs and time. Iran's logistical inefficiency exacerbates these challenges, with the country ranking poorly in the region. Navigating these obstacles will require concerted efforts from all stakeholders, including India, Iran, and international partners. Addressing financial restrictions, enhancing logistical infrastructure, and mitigating security concerns are imperative for realizing the full potential of Chabahar port and advancing regional connectivity and trade.

## **Conclusion**

The signing of the new Chabahar agreement between India and Iran marks a significant milestone in bilateral and regional trade and economic cooperation. It also sets the stage for strategic collaboration between the two nations. The project holds the potential to bolster India's influence in Central Asia, sparking competition with China and Pakistan. What lends momentum to this agreement is its reflection of India's independent approach. Simultaneously, the agreement aligns with US interests in containing China. Washington seeks to undermine China's international communication initiatives, particularly those

routed through Pakistan to Central Asia, Russia, and Europe. Instead, it aims to promote alternative initiatives originating from India, traversing through Iran and Central Asia to reach Europe. While Iran's involvement in the agreement may raise concerns for the United States, its priority in countering Beijing's influence might outweigh any reservations about Iran. This stands to greatly benefit Iran, bolstering its internal grip while enhancing its external influence. It provides Iran with a much-needed outlet amid challenges such as regional destabilization, tensions over its nuclear policy, and efforts to mitigate the impact of US sanctions. This raises questions about whether the United States would permit similar projects involving Iran with other countries or if this is a unique exception tailored to serve strategic interests specific to India.

