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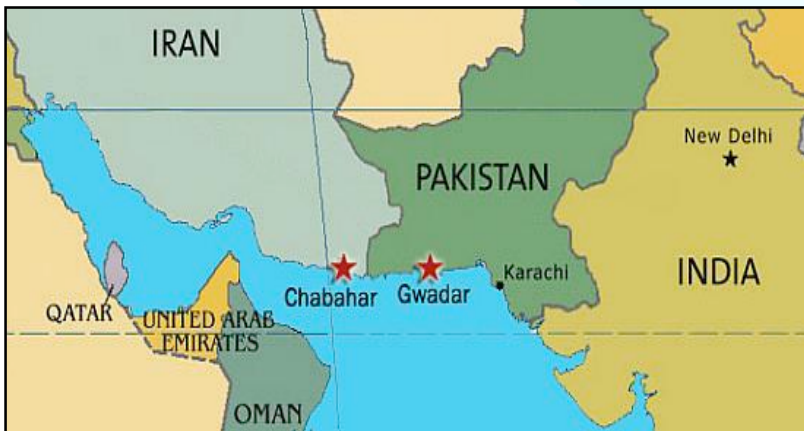
CHABAHAR – A STRATEGIC GATEWAY

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On 06 May 2015, India signed an important agreement with Iran, by entering into an MoU, in the field of strategic cooperation. The deal pertains to India's investment in the development of Chabahar port, in the north Arabian Sea. It was a bold step on India's part to go ahead and fulfill India's strategic trade requirements, notwithstanding US objections in view of sanctions in place. More so, it provides India an alternate trade route to Afghanistan, without bothering about any approval from Pakistan.

Chabahar port is strategically located on the southeastern coast of Iran, an extension of the Pakistan's Makran Coast, in the Sistan and Baluchestan province close to the confluence of Indian Ocean with the Gulf of Oman. The port has been declared a Free Trade Zone by Iran. It is situated about 70 km west of the equally important Chinese-funded Gwadar port of Pakistan. The geographical position of this port

is well suited for movement of trade to/from Afghanistan, a land locked country.



Source: Yale Global Studies

As India was always very keen to engage with Afghanistan economically and strategically, it finds Chabahar port as an easier sea -land route to Kabul. This option assumed further importance because Pakistan refused to provide a

land route for Indian trade to Afghanistan via Wagah border in Punjab. India and Iran had initially agreed to develop this project in 2003. However, no progress could be made on this front due to sanctions imposed on Iran because of its controversial nuclear program. In 2004, an Indian consortium inked an MoU with the Ports and Shipping Organization (PSO) of Iran to develop the Chabahar port, but the project never took off.ⁱ



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The Deal

In anticipation of easing of sanctions by USA, India grabbed this opportunity to initiate the process for a long term pact. With the signing of this MoU, the designated Indian and Iranian infrastructure companies will formally enter into a commercial contract under which Indian firms will lease two existing berths at the Port and operationalize them as container and multi-purpose cargo terminals.ⁱⁱ The availability of these berths at Chabahar Port would facilitate berthing of ships of trading partner countries and provide Afghanistan's garland road network system alternate access to a sea port.ⁱⁱⁱ

As per the agreement, the berths at Chabahar port will be leased for a period for 10 years, which can be renewed further by mutual agreement. The port will be developed through a Special Purpose Vehicle (SPV) which will invest USD 85.21 million to convert the berths into a container terminal and a multi-purpose cargo terminal.^{iv} On Indian side, it will be a joint venture of Kandla Port Trust (KPT) and Jawaharlal Nehru Port Trust (JNPT) Mumbai. The ownership of the infrastructure and installation made with the Indian investment will be transferred to the Iran's Port and Maritime Organisation (P&MO) by the end of the tenth year. The MoU also caters for incurring annual revenue expenditure of USD 22.95 million towards associated operational requirements of the Joint Venture.^v

The Trade Corridor

The strategic location of Chabahar makes this port a valuable investment to make. The proposed Iran – Afghanistan road network: Chabahar-Milak-Zaranj-Dilaram, a portion of which was constructed by India in 2009, will be used to transport trade on to the Afghanistan's Garland Highway. India has already spent USD100 million on building the 220-kilometre road in the Nimroz province of Afghanistan.^{vi}

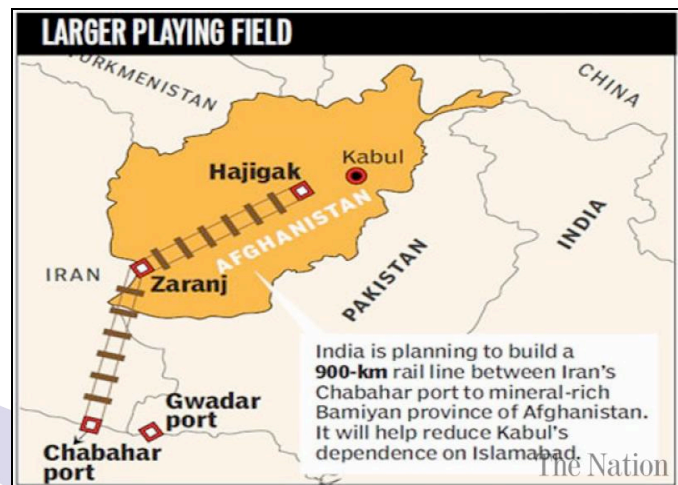
On completion of this project, the network will provide easy access to four major cities of Afghanistan -- Herat, Kandahar, Kabul and Mazar-e-Sharif. In fact, if this project continues to progress without any hurdle, India's trade can have clear passage to/from the resource rich region of Central Asia. The



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transport costs and freight time from India to Central Asia is also expected to reduce drastically by using this sea-land network.



Source: <http://mrunal.org/2012/08/diplo-delaram.html> Source: <http://nation.com.pk/politics/02-Nov-2011/India-plans-to-build-AfghanIran-rail-link>

India is also finalising a plan to construct a 900-km railway line that will connect Chabahar port to the mineral-rich Hajigak region in Bamian province of Afghanistan. As per a study, the proposed rail project may cost Iran and Afghanistan about USD 5 billion.^{vii} A major part of this project cost may be extended by India as development assistance. Availability of this railway network will also provide India a link with the energy rich Central Asian states of Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan.

Non availability of railroad connectivity is a major hurdle for Indian companies to establish joint ventures in this region. The region houses \$1 trillion worth of mineral resources, whose rights were bagged by an Indian consortium led by Steel Authority of India Limited (SAIL). This connectivity will ultimately result in operationalising the USD10.8 billion iron and steel project by this consortium of Indian steel makers under SAIL.^{viii}



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Strategic Implications

The Foreign Policy of India, 2015-20, has highlighted the importance of the International North-South Transport Corridor (INSTC) in expanding India's trade and strategic links with Central Asia.^{ix} The proposed trade corridor brings tremendous benefits for India towards enhancing trade linkages with the countries in Central Asia and Eurasia. Development of Chabahar port will be an appropriate step in this direction.

Once completed, these development projects will open numerous geo-political and economic opportunities for India. It will lead to not only increasing India's leverage in Afghanistan but will also establish its strategic presence in the region. Indian companies will have opportunities to venture into Afghanistan and explore its enormous mineral wealth. In the long term, it will act as a hub for Indian trading operations to venture into the oil and mineral-rich Central Asia.

The US may not be too happy with these developments. India was asked to avoid rushing into doing business with Iran as they have not yet sorted out the pending issues of Iran's nuclear programme. However, in all probability, the sanctions are on their way out and it may turn out to be a wise decision by India to have taken the initiative. China, having established itself in a strategic position in Gwadar, may also feel uncomfortable to find India gaining a foothold close to the Strait of Hormuz. The US, on one hand, may be happy to see India taking initiatives to counter growing Chinese influence in Gwadar, but otherwise, may not like India's strategic partnership with Iran. For Afghanistan, it's a win-win situation, in getting access to sea thereby reducing dependence on Pakistan. After going through tough economic sanctions, the deal will provide Iran an opportunity to lift its stunted economy.

Conclusion

Although, India's investment pledge of USD 85 million is not a very big deal as compared to billions of dollars that China agreed to spend in Gwadar, Pakistan; in the long run it may turn out to be a good



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investment. In any case, it will attract further investment in construction of roads, railways and development of other southern ports in Iran. With these infrastructure projects going, the bilateral trade between India and Iran, which stood at about USD 683 million in 2013-14 will grow exponentially.^x

No doubt, Chabahar project is more important to Afghanistan than to anyone else.^{xi} But this bold and timely move by India was very much required to assert itself in the Af-Pak region. At a time when the Indian Ocean region holds enormous economic opportunities and trade potential, it has become a playing arena of major powers. This strategic move of finding a foothold on the Makran coast will be seen as a big step by India in establishing itself as a regional power.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

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ⁱ <http://thedi diplomat.com/2015/05/indias-missed-iran-opportunity>, 21 May 2015.

ⁱⁱ http://mea.gov.in/press-releases.htm?dtl/25185/InterGovernmental_MoU_between_India_and_Iran, 06 May 2015.

ⁱⁱⁱ http://www.business-standard.com/article/pti-stories/inked-mou-with-iran-for-developing-chabahar-port-n-gadkari-115050701284_1.html, 07 May 2015.

^{iv} http://www.business-standard.com/article/economy-policy/chabahar-port-to-help-india-circumvent-pakistan-115060201649_1.html, 02 June 2015.

^v India Iran Sign Pact, The Economic Times, 06 May 2015.

^{vi} <http://www.dawn.com/news/1181003>, 10 May 2015.

^{vii} http://www.telegraphindia.com/1120831/jsp/business/story_15918680.jsp#.VZPOCxuqqko, 31 August 2012.

^{viii} <http://www.thehindubusinessline.com/economy/india-afghanistan-and-iran-set-to-sign-transit-agreement/article6925702.ece>, 23 Feb 2015.



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^{ix} <http://thediplomat.com/2015/05/an-opportunity-for-india-in-central-asia>, 04 May 2015.

^x <http://www.thehindubusinessline.com/economy/india-afghanistan-and-iran-set-to-sign-transit-agreement/article6925702.ece>, 23 February 2015.

^{xi} <http://www.dw.com/en/examining-the-implications-of-the-indo-iranian-chabahar-port-deal/a-18439937>, 08 May 2015.

