

Development of Chabahar Port and the Strategic Turf Wars between Regional Rivals



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The landlocked Afghanistan has been using the port of Karachi in Pakistan for its international trade for decades but with the development of the strategically located Chabahar port of Iran, the situation has taken a turn to the disadvantage of Pakistan. Chabahar port is located in the Sistan and Baluchestan Province of Iran, some 72 kilometers west of Pakistan's Gwadar port.

The Chabahar port has dented Pakistan's centrality to the Afghanistan's external trade and Central Asia as a major portion of its transit business has been lost to Iran and now India.¹ Recently, Afghanistan finalized a tripartite trade agreement with Iran and India on using the Chabahar port as an alternative route,² which is expected to increase bilateral trade from \$700-800 million to \$3 billion.³

Over the last decade, the Iranians have invested considerably in the development of Chabahar. A 600 kilometer long highway linking Chabahar to Zahidan in Iran's north, only 240km from Malik on the Iran-Afghanistan border, is already operational. India has also already spent \$100 million on building a 220-kilometer Zaranj-Delaram highway since 2009 in the southwestern Nimroz province of Afghanistan which is 700 km away from southeastern Iran and can be easily extended to be linked to Chabahar.⁴ Iran has also started constructing a railway line from Chabahar to Zahidan where it will connect with the Iranian rail network and to Central Asia and the Commonwealth of Independent States (CIS). Iran foresees Chabahar Port as an instrument in their policy to evade international isolation and has invested substantial resources to upgrade it with the strategic objective to create an alternative to Bandar Abbas, which is located further west across the state of Hormuz. Iran fears that any blockade of the Straits of Hormuz would create challenges for its trade and commerce activities.⁵ The Iranian government has also set up a Free Trade Zone at Chabahar to attract investors where CIS countries and Afghanistan have already been given land.⁶

Bypassing Pakistan

On May 6, 2015, India and Iran concluded a long-awaited memorandum of understanding to complete the development of the Chabahar Port by December of 2016. The agreement included an investment of \$85.21 million from India to construct a container terminal and a multi-purpose cargo terminal. In 2003,

¹ <http://www.dawn.com/news/839023/the-shift-in-afghan-transit-trade>

² <http://tribune.com.pk/story/887922/parallel-ports/>

³ <http://www.dawn.com/news/1181003>

⁴ <http://www.newindianexpress.com/columns/Indias-Opportunity-in-Iran-Port/2014/06/03/article2259689.ece>

⁵ <http://tribune.com.pk/story/903491/fading-leverage-transitioning-off-as-a-transit-hub/>.

⁶ <http://www.newindianexpress.com/columns/Indias-Opportunity-in-Iran-Port/2014/06/03/article2259689.ece>

India and Iran had agreed to execute the project, bypassing Pakistan, but progress slowed down due to UN and Western sanctions on Iran for the latter's controversial nuclear program. India's recent signing of the MoU with Iran on Chabahar port without waiting for the lifting of sanctions and in spite of US pressure not to 'rush' into doing business with Iran until the final agreement on its nuclear program has been worked out reflects Prime Minister Narendra Modi's keen interest in reducing India's dependence on Pakistan for trade with Afghanistan and Central Asia. Chabahar provides India with alternative access to Afghanistan, Central Asia and beyond as opposed to a road link through Pakistan, to Afghanistan.⁷ Recently, Pakistan refused to sign a motor vehicle agreement which would open up a road link for India and Afghanistan, stating security reasons and urging India to carry out trade via Karachi port instead.⁸ India believes Chabahar's development will render Pakistan's persistent refusal to allow India-Afghanistan trade through its territory worthless.

While the Iranians are keen to attract Indian investors in the Free Trade Zone, an Indian source privy to the negotiations on the Chabahar port project stated, "It is very obvious that Chabahar is even more important for India than for Iranians. Strategically for India, you can access Afghanistan, Central Asia, (on) to the Caucasus, to Russians, to Turks, to North Europe."⁹ Besides giving India an alternative route to Afghanistan and Central Asia, which will supposedly bring significant savings in transportation costs and time, India's lease of facilities at Chabahar will also give it a strategic foothold close to the mouth of Gulf of Hormuz on the west and Gwadar port on the east.¹⁰

This port has certainly emerged as a more viable and attractive option not only for Afghanistan's international trade but also increasingly for India for various reasons. Lying in the Gulf of Oman just outside the Persian Gulf, the port serves as the best alternative for Afghanistan in comparison to the Karachi Port, where export activities have time and again been interrupted by political restrictions and high storage cost.¹¹

Afghan-Pak Transit Trade: Background and Current Scenario

⁷ <http://www.pakistanherald.com/article/5820/11-may-2015/india-chabahar-gambit>

⁸ <http://tribune.com.pk/story/880187/refusing-to-open-india-afghanistan-road-link-pakistan-asks-for-trade-via-karachi-port/>

⁹ <http://in.reuters.com/article/2015/04/23/india-afghanistan-idINKBNONE2SF20150423>

¹⁰ <http://www.pakistanherald.com/article/5820/11-may-2015/india-chabahar-gambit>

¹¹ <http://archive.indianexpress.com/news/india-uses-iran-port-to-import-afghan-dry-fruits/1170088/>

Ever since Pakistan and Afghanistan have enforced the Afghanistan Pakistan Transit Trade Agreement (APTTA) in June 2011, replacing the 1965 transit treaty, the volumes of transit goods from the ports of Pakistan to Afghanistan have substantially decreased. Contributing to Afghanistan's shift towards Iranian ports are also some border skirmishes on the Durand Line, the porous border between Pakistan and Afghanistan, such as the Salala incident on November 26, 2011¹², following which Pakistan suspended transport of all types of NATO supplies from Karachi to Afghanistan, which consequently also disrupted commercial imports.¹³

Until 1965, the landlocked territory of Afghanistan had been using the ports of Pakistan for its access to global trade through various fragmented regulations of the federal, provincial and local authorities. In 1965, Afghanistan and Pakistan consolidated these fragmented regulations into a bilateral transit treaty, guaranteeing Afghanistan's access to the seaports of Pakistan. In 2011, in order to address the issue of smuggling which was undermining the revenue efforts of the federal government while also adversely affecting the domestic industry, the two neighbors decided to upgrade the existing regulatory framework to cater for increasing trade volumes and connectivity. In 2010, the transit trade agreement with Afghanistan was revised and, on June 12, 2011, the Afghanistan Pakistan Transit Trade Agreement (APTTA) entered into force replacing the 1965 transit treaty.

While the treaty was welcomed by the international community including the United States and the European Union with the hope that it would foster economic growth and regional integration, its implementation was followed by a significant decline in the volumes of transit goods from the ports of Pakistan. This was because the new treaty raised the transportation cost in the range of Rs. 50,000 to Rs. 80,000 from Karachi to Jalalabad along with placing rigid conditions like providing guarantees to Pakistani authorities and so on.¹⁴ Transit trade between Afghanistan and Pakistan had been below \$200 million in 2001 and rose sharply since 2005 to \$1.957 billion in 2007 and further hiked up to \$2.5 billion in 2010-11. In 2012, it plummeted to less than a \$1 billion after the APTTA was implemented. In 2011, 90,000 Afghan trade containers transited through Pakistan while in 2014, only 40,000 containers were imported through the Karachi port.¹⁵ In the first nine months of the 2012-2013 fiscal year, only 21,125 Afghan cargo containers were imported which reflected the diversion of cargo to Iranian ports.¹⁶

¹² <http://tribune.com.pk/story/297979/nato-jets-attack-checkpost-on-pak-afghan-border/>

¹³ <http://www.dawn.com/news/1025675/decline-in-afghan-transit-trade>

¹⁴ <http://www.dawn.com/news/1166704>

¹⁵ <http://tribune.com.pk/story/903491/fading-leverage-transitioning-off-as-a-transit-hub/>.

¹⁶ <http://www.dawn.com/news/1025675/decline-in-afghan-transit-trade>

On the other hand, the flow of Afghan commercial containers via Iranian ports is recorded to be 30,182 in 2008-09 increasing to 80,000 in 2013-14. Afghanistan and Iran signed their first transit trade agreement in 1973 which was revised in 2005 to expand its scope to cover duty-free transit goods and the re-exporting of transit goods to third countries via the Bandar Abbas port. In February 2013, the two countries signed another agreement to facilitate road transportation and transit of goods.¹⁷

Moreover, in April 2015, Afghan President Ashraf Ghani, on his first state visit to India, also warned in an interview to Indian newspaper The Hindu that if Pakistan does not allow Afghanistan direct access to India through Wagah border in Lahore, Afghanistan will not provide equal transit access to Central Asia for Pakistani trucks. He stated that Pakistan must accept the “national treatment” clause agreed to in the Afghanistan Pakistan Transit and Trade Agreement (APTTA), signed in 2011, which gives each country equal access up to the national boundaries of both.¹⁸

Strategic Turf Wars between India, Pakistan and China

Chabahar port, being functional now, is already handling 2 million tons of cargo every year. By 2020, the port is expected to have the capacity to handle 82 million tons of cargo every year. The Iranians are counting on the rejuvenation of economic activities in Afghanistan after the US withdrawal from Afghanistan for further development of Chabahar. The project is strategically important particularly for India due to its land access to Afghanistan and Central Asia which is otherwise blocked by the territory of Pakistan. Modi’s sense of urgency in concluding the trade pacts with Iran and other Persian Gulf nations is in most part driven by Chinese President Xi Jinping’s signing of \$46 billion energy and infrastructure development agreements with Pakistan in April 2015 to develop the Gwadar port.¹⁹

The MoU signed between Iran and India even overruled America’s call for India not to hasten into doing business with Iran. The US expressed its concerns that India is moving too fast and could undermine the sanctions regime. Modi’s administration, however, insisted that the development of the port does not violate any sanctions and that India should not be bound by Washington’s decisions. Modi further stated that the port will not only enable Iran to open up to the Western world once the sanctions are lifted but also reduce landlocked Afghanistan’s reliance on Pakistan for access to the sea.²⁰

¹⁷ <http://www.dawn.com/news/1166704>

¹⁸ <http://tribune.com.pk/story/878405/pakistan-must-allow-afghanistan-direct-trade-access-to-india-through-wagah-ghani/>

¹⁹ <http://www.dawn.com/news/1181003>

²⁰ <http://www.dawn.com/news/1181003>

Noting the likelihood of sanctions on Iran being lifted, India has fast-tracked the port development. It believes the likelihood of a rapprochement between Iran and the West will enhance Iran's position and Chabahar will certainly benefit from this. India wishes to lessen the prolonged bitterness in Iran about India's vote against its nuclear program at the IAEA in 2005 and plans to build an independent relationship with Iran without compromising its ties with Saudi Arabia, the Gulf Cooperation Council (GCC) or the US. India believes its increased presence in Chabahar now will pay rewarding dividends later. According to Alyssa Ayres, US Deputy Assistant Secretary of State for South Asia, this sentiment has been magnified as China has become more active in Afghanistan. India surely does not want China to displace India's influence in the region.²¹

Apart from investing in Afghanistan, the Chinese have also begun working on a heavy oil refinery in Chabahar. A Chinese dredger is already functional at the port for land reclamation activities while a market selling Chinese goods has also been opened in Chabahar. The Chinese are also interested in developing a petro chemical complex at the port.²² This has raised concerns for India as China, on the other hand, has also heavily financed and constructed the port of Gwadar in Pakistan which is due to be fully operational by the end of 2015. Gwadar is the nearest warm-water seaport for Chabahar and also gives access to Afghanistan and energy-rich Central Asian republics. The port opens up a direct 3,000 km-long corridor trade corridor between the Gwadar port and Kashgar, the northwestern Chinese city. The construction of this corridor will cost China \$12 billion which will connect Gwadar to China's Xinjiang province via roads, railways and pipelines to transport oil and gas while also acting as a bridge for China's planned maritime Silk Route meant to link more than 20 countries as part of a trans-Eurasian project after its development.

The geopolitical implications of these two emerging seaports being in such close physical proximity are enormous as their respective sponsors, China and India, and massive emerging powers and regional rivals. This could lead to a dangerous competition between the two countries sending the region into an economic descent or their cooperation could achieve the potential of the 'Asian Century', a suspected 21st-century supremacy of Asian politics and culture, if certain factors, such as healthy competition regarding these two ports, works out in the region's favor.

India hopes its involvement in the development of Chabahar will circumvent Pakistan's current hold on access to Afghanistan and enhance India's geo-strategic sway in the region, as in the words of

²¹ <http://in.reuters.com/article/2015/04/23/india-afghanistan-idINKBN0NE2SF20150423>

²² <http://www.newindianexpress.com/columns/Indias-Opportunity-in-Iran-Port/2014/06/03/article2259689.ece>

Brigadier (retd.) Rumel Dahiya, Deputy Director General at the Institute for Defense Studies and Analysis.²³ India and China are both are interested in Chabahar and Gwadar respectively for access to the Middle East and Central Asia. This reflects not only the search for more trading corridors but also unfolds a growing geo-strategic and commercial competition between the world's two most populous nations. This could also possibly complicate the multi-lateral Indo-Iran-Pakistan-China relationship. It will be interesting to see how the quest for open maritime trading routes and the pursuit of competing geo-political interests unfolds.

²³ http://www.business-standard.com/article/economy-policy/chabahar-port-to-help-india-circumvent-pakistan-115060201649_1.html