

# ISAS Insights

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## Chabahar Launched: A Boost for Regional Connectivity Amidst Global Uncertainty

*On 3 December 2017, Iran's President Hassan Rouhani inaugurated a much awaited US\$1 billion (S\$1.35 billion) project to expand Shahid Beheshti Port at Chabahar, located in Iran's south-eastern province of Sistan and Baluchistan. Chabahar is the country's sole deep-water harbour and only direct access point to the Indian Ocean. This is also an achievement for India, following the port development pact signed in 2016 during Prime Minister Narendra Modi's visit to Tehran, in which India committed to making US\$500 million (S\$676 million) available to develop the port and related infrastructure. Hopes are high for a boost in regional trade and connectivity. However, doubts persist over the port's viability. In particular, India faces a tricky challenge in managing relations with Iran and the United States at a time of global uncertainty.*

Jivanta Schoettli<sup>1</sup>

### Taking Iran to the World

The inauguration of Shahid Beheshti Port at Chabahar on 3 December 2017 was attended by dignitaries from 17 countries, including India (Minister of State for Shipping, Pon

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Radhakrishnan), Qatar, Afghanistan and Pakistan. In his speech, Iranian President, Hassan Rouhani, reportedly said that this was a “historic” day for Iran, and that the port would bring “more engagement and unity” among regional countries and promote “positive competition”.<sup>2</sup>

A day before the inauguration, India’s External Affairs Minister Sushma Swaraj made a surprise stopover in Tehran (described by India’s Ministry of External Affairs officials as a technical stop, not an unscheduled visit), on her way back from Sochi where she attended the Annual Summit of the Shanghai Cooperation Organisation (SCO) meeting. According to the Iranian Foreign Ministry, the Shahid Beheshti Port was discussed and seen as reinforcing Iran-India mutual and regional cooperation.

The construction has been done by a Revolutionary Guard-affiliated company, Khatam al-Anbia, the largest Iranian contractor of government construction projects at a cost of US\$340 million (S\$460 million). It involved several subcontractors, including a state-run Indian company (India Ports Global Pvt Ltd), and brings the capacity of the port to 8.5 million tonnes of cargo annually, from the previous 2.5 million tonnes. The extension includes five new piers, two of them for containers allowing cargo vessels with up to 100,000-tonne capacity to dock. Chabahar also has an international airport and Iran’s Navy and Air Force have bases in the city, adding to the port’s value.

## **India’s Involvement**

India holds a 10-year concession for the Chabahar port, involving the operation of a 640-metre container terminal with a draft of 16 metres and a 600-metre multipurpose facility with a draft of 14 metres. It has committed a capital investment of US\$85.21 million (S\$115.2 million) and annual revenue expenditure of US\$22.95 million (S\$31 million).

The port project is inter-linked with a trilateral transit agreement that was signed between India, Iran and Afghanistan in May 2016. Indian goods heading toward Central Asia and

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<sup>2</sup> “Iran Opens \$1bn Extension at Closest Port to Indian Ocean”, *Iran Observer*, December 2017. <http://www.iranobserver.org/iran-opens-1-billion-extension-at-closest-port-to-indian-ocean/>. Accessed on 11 December 2017

Afghanistan are granted preferential treatment and tariff reductions at Chabahar. In fact, this became operational when India sent its first wheat shipment of almost 15,000 tonnes to Afghanistan. This was part of a commitment made by the Indian government to supply 1.1 million tonnes of wheat to the people of Afghanistan on a grant basis. This shipment left India's western port of Kandla on 29 October 2017 and arrived at Chabahar on 1 November 2017. From there, the wheat was transported by road to the bordering Afghan province of Nimroz, on the 240-kilometre Zaranj-Delaram highway built by India in 2009. In combination with Chabahar, this is a logistical breakthrough for India, enabling it to bypass the highly restricted land route via Pakistan.

At present, Pakistan refuses to allow Afghan trucks to come up to the Indian border at Attari, Punjab, or to take back Indian goods (despite there being a 2010 connectivity pact on transit trade between Afghanistan and Pakistan). Instead, Afghan trucks with Afghan products have to come to Torkham on the Afghan-Pakistan border where goods are loaded onto Pakistan trucks that travel to the India-Pakistan border at Wagah. Once the goods are offloaded, the trucks go back into Pakistan, empty.

There are also high expectations that Chabahar will become an alternative port for Afghanistan, which has been dependent on Pakistan and its southern port of Karachi for transit and trade activities. Relations between the two countries have been tense, over mutual allegations of terrorism sponsorship on either side of the border and Afghanistan complains of being subjected to unannounced transit restrictions. However, a majority of Afghanistan's population is located closer to Pakistan than to Iran, so road and rail connections will need to be rapidly developed if Afghanistan is to fully benefit for the new route.

India has committed to developing rail and road infrastructure, and has announced plans to build a 500-kilometre rail line costing US\$1.6 billion (\$2.16 billion) from Chabahar to the Iranian city of Zahedan on the border with Afghanistan. Making his first provincial visit since the re-election in May 2017, Rouhani visited various nodal points, apart from Chabahar in south-eastern Iran, including the cities of Zahedan and Zabol, where he emphasised the importance of connectivity, free zones and border markets as the gateway for exports and fighting poverty.

For Afghanistan too, Chabahar is being projected as a potential game-changer. Following the inauguration, the Afghan Ambassador to India tweeted that, “The launch of Chabahar today turned a new page from a land locked monopoly to a full-fledged connectivity – thanks to the shared interests!”<sup>3</sup>

## **Viability and Vulnerability of Chabahar**

Despite the shared interest, plans to develop Chabahar have been long in the making. India and Iran first formally agreed to develop Chabahar port in January 2003 during the visit by then-Iranian President Mohammed Khatami to New Delhi. The project was held up largely due to the international sanctions on Iran, which were lifted in January 2016. Less than four months later, Modi paid an emblematic visit to Iran in May 2016 during which he signed the Chabahar deal.<sup>4</sup>

Since May 2017, progress has been held up over operational and management issues. Aside from financial and operational details is the competition expected from Gwadar in Pakistan, located at a distance of 170 kilometres, as the crow flies. With China’s massive investments, Gwadar is being rapidly developed as part of the China-Pakistan Economic Corridor. Pakistan sent its Minister for Maritime Affairs, Mir Hasil Bizenjo, for the inauguration ceremony in Iran to indicate that Islamabad has a stake in the Chabahar port, which it has even designated as the sister port of Gwadar. However, once fully operational, it is hard to imagine that the two ports will be complementary, given the enormous difference in scale.

Gwadar’s planned capacity will be 300 to 400 million tonnes of cargo annually, compared to the projected capacity of Chabahar of possibly 80 million tonnes. The Gwadar port will be capable of handling the world’s largest container ships and massive oil tankers. Furthermore, China seeks to build roads and railways connecting the Gwadar port through the Karakoram region to Kashghar, the capital city of China’s western Xinjiang province. Talk of rivalry and

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<sup>3</sup> Dr Shaida Abdali on Twitter: “The launch of Chabahar today turned ...”, 3:02am - 29 October 2017. Accessed on 11 November 2017.

<sup>4</sup> See my earlier ISAS Brief on expectations of the 2016 visit: “Implications of an Indo-Iranian Initiative”, ISS Brief No. 428, 20 May 2016. <https://www.isas.nus.edu.sg/ISAS%20Reports/ISAS%20Brief%20No.%20428%20-%20Implications%20of%20an%20Indo-Iranian%20Initiative.pdf>. Accessed on 6 December 2017.

competition notwithstanding, both China and Pakistan have good diplomatic relations with Iran and have been careful to show calibrated support for the Chabahar project.

## **High Stakes for India**

Chabahar is the largest overseas infrastructure projects for India to date, and a prime example for its new “Think West” policy which seeks to strengthen relations with countries in West and Central Asia. India has invested political capital in securing full membership of the SCO, which was granted in June 2017. This opens up new possibilities for greater Indian engagement in Central Asia, facilitated by Chabahar. However, a lot more energy and resources will be required for this initiative bears fruit. The Central Asian Republics are said to be interested in Chabahar’s development but have not announced major statements welcoming its inauguration.

A further challenge for India will be managing surprises and fallout of American President Donald Trump’s foreign policies, a number of which have thrown global institutions and existing structures of international diplomacy into disarray. Trump’s threat to de-certify the Iran nuclear deal would have significant repercussions in terms of re-introducing a host of restrictions on the flow of money and business dealings with Iran. The next certification deadline looms in January 2018.

On a recent visit to India, United States (US) Secretary of State Rex Tillerson said in a press interaction, that despite Washington’s tough stance toward Iran, the US has yet to object to Iran’s increased cooperation with India, stating that the US would not block “legitimate” business activities with Iran by India or any other ally. He also said that he saw “no contradiction” with US-Iran sanctions and India’s bilateral port development deal in Chabahar.<sup>5</sup>

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<sup>5</sup> “Secretary of State Rex Tillerson and Indian External Affairs Minister Sushma Swaraj at a Press Availability”, US Department of State, 25 October 2017. <https://translations.state.gov/2017/10/25/secretary-of-state-rex-tillerson-and-indian-external-affairs-minister-sushma-swaraj-at-a-press-availability/>. Accessed on 11 December 2017.

Nonetheless, reports already suggest, for example, that the Japanese, originally interested in developing and managing the port jointly with India, might be showing signs of backing out.<sup>6</sup> Meanwhile, India has signed memoranda of understanding (MoUs) committing almost US\$21 billion (S\$28.4 billion), including US\$85 million (S\$115 million) for Chabahar port development, a US\$150 million (S\$203 million) line of credit to Iran; a US\$8 billion (S\$10.8 billion) India-Iran MoU for Indian industrial investment in the Chabahar Special Economic Zone. Aside from India's strategic interests in Chabahar as a regional connector and enabler, it is also a big importer of Iran's oil and would not want the embarrassment of delays or diversions from the announced hope of making Chabahar operational by end 2018.<sup>7</sup>

If this happens, Chabahar will give India invaluable leverage. Along with the recently launched air corridor between India and Afghanistan, the port and planned rail and road linkages would enable India to play a much bigger role in Afghanistan, enhancing its economic assistance and development, and contributing to what India has called, an Afghan-led and Afghan-owned peace process.

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<sup>6</sup> <http://www.livemint.com/Politics/r4G8DfX5Sg3PSJVZs9tyUL/Japan-cautious-about-investing-in-Chabahar-port.html> Accessed on 11 December 2017.

<sup>7</sup> "Shri Nitin Gadkari says India hopeful operations at Chabahar Port will start by 2018", Press Information Bureau, Government of India, Ministry of Shipping, 5 August 2017. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=169675>. Accessed on 6 December 2017.