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Chabahar Port and India

On February 10, 2018, Iran signed an agreement to lease the operational control of Chabahar port to India for 18 months. As furious changes roil the region with deep implications for the energy business, India has begun to make a guess about the economic future of the competing countries. Till recently by not showing any partisanship especially among the members of the Gulf nations who control the oil buckets, India had struck true to the saying of Ehud Barak, former Prime Minister of Israel. "The Middle East is a region where predictions go to die".

History: The changes in Indian appraisal of the desert politics did not happen overnight. India was offered Chabahar in 2003 by Iran "under which India committed to make bulk of investment to develop the infrastructure of the port. However, the progress of work was very slow due to United States (US) sanctions over Iran".[2] The offer came a year after Pakistan and China signed a deal in April 2002 to build the $248 million deep-sea port at Gwadar in the former. Under the original agreement, China was to fund three-quarters of the project, at a cost of $198 million through loans and grants. The remaining $50 million is to come from Pakistan. Both Pakistan needed Gwadar port to develop fresh links with post Taliban Afghanistan and Iran needed Chabahar to provide an investment boost in a sanctions era.

Both projects moved slowly. Gwadar was to be completed in 2005 while for Chabahar India and Iran could not even reach the stage of setting the dates for its completion. The crucial point to note about Chabahar and Gwadar is that they were not envisaged as ports to reach Southern Europe. "Pakistan intends to take on other Gulf ports, especially Oman's Salalah and UAE's Jebel Ali and offer Central Asian states their most efficient warm-water access to both the west and the east".[3] (sic) This has been underscored by the former Indian government led by UPA too. Former external affairs minister Salman Khurshid said "the port is the most cost-effective route for New Delhi to reach the Central Asian markets…to facilitate import of minerals from Afghanistan".[4]

In the case of Chabahar, the Iran government planned to build it as the mouth of a free trade zone (20 year tax exemption and duty free import) with linkage to central Asia. As an OECD note prepared by the Afghanistan trade ministry notes Afghan investors are also expected to be present in

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the proposed free trade zone. To make some of those possible India built the Delaram to Zaranj Highway for $135 million.[5] The highway, designed and constructed by India's Border Roads Organisation was opened for commercial traffic in January 2009 by then Afghan President Hamid Karzai. The highway brings Afghanistan freight traffic to the Iranian border at Zaranj. "The city of Zaranj serves as the border crossing between Afghanistan and Iran, and historically it is of significant importance to the trade route between Central Asia, South Asia and the Middle East. The highway thus provides land-locked Afghanistan an alternative way to access the Arabian Sea and the Persian Gulf, instead of relying solely on the Pakistani routes".[6] These considerations explain the position of both ports. Chabahar, for instance, cuts the distance to Kabul by 700 kilometres than Karachi, creating a huge potential savings of $ 1000 per container.[7]

Post sanctions: The circumstances became propitious for Chabahar, once Iran signed landmark nuclear agreement with P5+1 nations in 2015. It lifted the sanctions on the country making it possible for India to push investments in the country. The lead was taken by the ministry of shipping from October 2014 onwards by sending delegation to Tehran and receiving reciprocal ones to march from an MoU signed in 2016 to an investment contract. The MoU was signed between Indian Prime Minister Narendra Modi, Iranian President Hassan Rouhani and Afghanistan President Ashraf Ghani to build a trilateral Transit and Transport Corridor among the three countries using Chabahar Port as one of the regional hubs.

Under the MoU, India Ports Global will refurbish a 640 meter long container handling facility, and reconstruct a 600 meter long container handling facility at the port. The company will modernize ancillary infrastructure by installing four rail-mounted gantry cranes, sixteen rubber-tire gantry cranes, two reach stackers, two empty handlers, and six mobile harbor cranes. Upon completion of the works Chabahar's shipping handling capacity will be increased to 8 million tons from the current 2.5 million tons. As of now the investment from India is expected to be about $85 million but the overall Indian exposure to the project is estimated at $ 500 million.

The shipping ministry set up Indian Ports Global, an unusual state led venture for India in the ports sector. It is a joint venture between JNPT and Kandla Port Trust and is expected to follow up the Chabahar project with more such in other countries. One project where it plans to bid is Payra in Bangladesh. It is unusual because the Indian government had assiduously avoided such an exposure in the international arena for any projects it had a stake in, except for those involving trade in commodities.

The change in tactics for India has become necessary after one element of the future had become clear. China's inexorable march to secure its energy supply is determining its outreach among the nations of Indian Ocean and the Middle East and forcing India to react. Djibouti in Africa, Gwadar in Pakistan and Hambantota in Sri Lanka are all Chinese run ports coming up too close to Indian coasts. While Wickremesinghe has emphasised that Chinese navy will not call at Hambantota, that is more of an exhortation than a statement of position. Sri Lanka owes $ 8 billion in debt to China, the port is like a sale of real estate to meet its dues. Djibouti is a port for Chinese navy and so will be Gwadar. Possibly next on the cards is the proposed deep sea port, Payra in Bangladesh though India too plans to bid for it through the same SPV that it has set up for Chabahar—Indian Ports Global. An energy blockade from the seas may seem far fetched at this juncture for India to encounter, but instead of a difficult war that nuclear nations cannot wage, it is quite a plausible threat to reckon with since it can be waged at far less cost but with devastating impact for the economy.

Would one Chabahar ensure a checkmate in India's favour. Hardly so! Yet it is the beginning of a long running detente for India around the Persian Gulf. India has already begun to use the two berths it has committed to develop at the Shahid Beheshti port to send the first few consignments of grain to Kabul. With Afghanistan in tow, India will need to work towards integrated development of connectivity infrastructure including ports, road and rail networks to open up greater opportunities for access to regional markets and "integration of the three economies".

The Indian participation in the expansion of Chabahar port is also in keeping with the Iranian government's priorities. The port lies outside the Strait of Hormuz one of the three choke points in the Indian Ocean, the others being Straits of Malacca and Bab el Mandab Strait and so largely insulated from any conflagration in the Gulf. As D. P. Srivastava, former Indian ambassador to Iran, who had curated the Chabahar deal in its infancy notes: "Expansion of the port will also bring more trade and development to Sistan-Balochistan, a strategic province bordering Pakistan and Afghanistan with few natural resources. In recent years, the region has also witnessed an upsurge in terrorist attacks by groups based in Pakistan".[8] There are other advantages too. India plans to invest in an urea plant adjacent to the port. For Iran, this makes sense to raise productivity in its investment starved farms. There are also plans for setting up an alumina plant by India's state owned Nalco. So energy especially gas, other commodities and trade with land locked central Asia is the troika of benefits India and Iran plan to harness through Chabahar. For India a key requirement from Chabahar is, of course, gas. Iran has already built a 900 km pipeline, from the gas fields of Assaluyeh in the west of the country to Iran Shahr which is just north of Chabahar at about 100 km. The gas berth is the next stage India will look to develop.

Prospects: These plans read great on paper. The problems are, however, plenty and the solutions, as yet, few! At least none that some nation will not veto. Iran itself has not been fully transparent in its deals with India. Indian shipping ministry officials were surprised at the raising of fresh demands in their negotiations with their counterparts. In March 2014, Iran told India it would no longer accept payment for gas and oil in Indian rupees even though it was a currency to bypass the strict sanctions regime imposed on it to restrict its access to banking channels.[9] There are some common to both. As India and Iran looked across the waters from Chabahar, the hitherto politically solid bloc on the other side, Gulf Cooperation Council, the alliance of six states led by Saudi Arabia (which established it in 1981 at its capital Riyadh) almost dissolved in the same week. Earlier this year, Qatar was accused of breaking ranks with the other members of the bloc that included Kuwait, the United Arab Emirates (UAE), Bahrain, and Oman for having cultivated relations with Iran. The others broke off diplomatic relations with Qatar and enforced a crippling blockade.

Though Kuwait has invited Qatar back to the annual meeting of the six, in response UAE and Saudi Arabia have formed a new "joint cooperation committee". India has so far been used to deal with the GCC as a bloc that is largely Sunni against the Shia majority countries that are led by Iran. It was a relatively easy equation that has now broken down. To ramp up investments back home, India has in the past couple of years fostered competing relations with these countries. For instance, UAE has operationalised a $ 75 billion sovereign fund for India. Of this $ one billion has already been transferred to India's National Infrastructure and Investment Fund while the volume of oil imports from Saudi Arabia is competing for the number one rank against a resurgent Iran.[10] The kingdom is now the second-largest crude oil supplier to India after Iraq.[11] India sourced 19 per cent of its oil and 29 per cent of LPG imports from Riyadh in 2016-17. Playing cosy with Tehran at this juncture, despite its role as a traditional heavy weight partner for New Delhi, has costs.

It is a study in contrast how China plays this great game.[12] Beijing has plans to use its fat purse to buy influence like its plans to buy shares in Saudi Arabia's state run Aramco, whose IPO is due in the new year. Its Belt and Road Initiative is also meant to provide opportunities to Chinese firms to invest in mega infrastructure projects in the region just as they hope to do in other regions of Asia and Europe. India is instead waking up to the possibility that its huge internal market can provide rich investment avenues for the oil states to deploy their petro-dollars into, as a counter opportunity to put those in US bonds. But investments in projects like Chabahar would still need India to put its hand into its thin purse. To make the choices harder, New Delhi's new found investment partner Japan has seemingly decided not to get involved in Chabahar, despite initial enthusiasm. Japan has deep economic relations with the USA. Since the Trump administration has come close to rescind the nuclear deal with Iran, Japan is left with very little options.[13]

In a region with so many competing interests a wrong call as Ehud Barak has warned, can have consequences. But with a dragon at the ocean door, India has to make some choices and Chabahar seems a right call to make if it is pushed with gusto.

Endnotes

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