

India & Iran Ink Landmark Deal: 10-Year Chabahar Port Operation to Boost Regional Trade and Connectivity

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The recently signed 10-year agreement between India and Iran on Chabahar Port operations is the first time that India has taken over the management of an overseas port. The port's location – in the Arabian Sea – is crucial for India, as it offers an alternative route for the movement of cargo traffic from the Strait of Hormuz. India has also been pushing for Chabahar to be part of the INSTC corridor, which will connect India with Europe via Russia. It remains to be seen whether the US adopts a pragmatic stance vis-à-vis India's involvement in the Chabahar Port or imposes sanctions.

On May 13, 2024, a long term bilateral contract on Chabahar Port Operation was signed between Indian Ports Global Limited (IPGL) of India and the Port & Maritime Organisation (PMO) of Iran. According to the contract, India would manage the Shahid-Beheshti terminal in Chabahar Port Development Project for a period of 10 years. IPGL will invest \$120 million in Chabahar Port. Apart from this India will also provide Iran with a \$250 million line of credit. Sarbananda Sonowal, Minister for Shipping and Ports (India) and Mehrdad Bazrpash, Iran's Minister of Roads & Urban Development were present at the signing of this agreement in Tehran. In December 2018, IPGL had taken over part of the operations of the Shahid Beheshti port (this arrangement carried on via short term contracts).

The recently signed 10 year agreement is important for several reasons. First, it is the first time that India has taken over the management of an overseas port. A long-term agreement as opposed to short term contracts will also send out the appropriate message to the business community of the region.

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Second, the agreement will make Chabahar an important hub and enhance connectivity. Chabahar Port (located in Sistan-Baluchestan Province, Iran) is India's gateway to Afghanistan and Central Asia. In May 2016, India, Iran and Afghanistan had signed an agreement for creating of a transit hub between the three countries with Chabahar as one of the regional hubs. The port's location – in the Arabian Sea – is also crucial for India, as it offers an alternative route for the movement of cargo traffic from the Strait of Hormuz

Sarbananda Sonowal, while commenting on the importance of Chabahar in the context of regional connectivity, said: *“Chabahar Port’s significance transcends its role as a mere conduit between India and Iran. It serves as a vital trade artery connecting India with Afghanistan and Central Asian countries”*.

It would be pertinent to point out that the Gwadar Port (Balochistan, Pakistan), which is a crucial component of the China Pakistan Economic Corridor (CPEC), is about 100 miles from the Chabahar Port. Several commentators have dubbed Chabahar as India’s answer to Gwadar.

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According to estimates, since 2019, Chabahar Port has handled container traffic of more than 90,000 TEUs (twenty foot equivalent units) and bulk & general cargo of over 8 million tonnes. Chabahar Port has also been used by India for delivery of relief materials in Afghanistan (in June 2023, India sent 20,000 metric tons of wheat via Chabahar).

Earlier, despite US sanctions on Iran, India’s participation in the Chabahar Port was exempt from sanctions. However, of late, senior officials in the Biden Administration have repeatedly stated that countries should avoid economic relations with Iran or be ready to face sanctions.

India has also been pushing for Chabahar to be part of the 7,200 km long International North South Transport Corridor (INSTC) corridor, which will connect India with Europe via Russia. India’s trade with Russia has also risen via Iran in 2022-2023.

Third, the agreement comes at a time when owing to several factors, including the turmoil in the Middle East, ties between US and Iran have hit rock bottom. Earlier, despite US sanctions on Iran, India’s participation in the Chabahar Port was exempt from sanctions (India was cautious, however, regarding investments in the project and work on the project had slowed down). Senior officials in the Biden Administration have, of late, repeatedly stated that countries should avoid economic relations with Iran or be ready to face sanctions. One of the key reasons for this change is the continuous attack from former US President and Republican Presidential candidate for the 2024 presidential election, Donald Trump and other Republicans that the Biden Administration has not been firm in enforcing sanctions on Iran and on countries maintaining economic links with Iran.

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US State Department principal deputy spokesperson Vedant Patel, while referring to the Chabahar Port project, said: *“Any entity, anyone considering business deals with Iran, they need to be aware of the potential risk they are opening themselves up to, potential risk of*

sanctions.”

External Affairs Minister, S Jaishankar, while responding to the remarks of the US State Department, said that it is important not to take a “narrow view” of the project. He also highlighted the point that in the past the US had been “appreciative” of the broader importance of the Chabahar Project.

In conclusion, the agreement between India and Iran is important not just in the bilateral context, but also regional connectivity and the broader geopolitical situation. It remains to be seen whether the US adopts a pragmatic stance vis-à-vis India’s involvement in the Chabahar Port or imposes sanctions. Given the fact that India has gone ahead with the agreement — in spite of US statements warning countries against economic linkages with Iran — and the overall importance of New Delhi’s ties with Tehran as well as the Chabahar project, it is highly unlikely that India will reconsider going ahead with its involvement in the Chabahar Port project. However, there will, of course, be significant challenges along the way.

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