



India-Iran Agreement on Chabahar Port: Boost for Global Supply Chain

Vinod Rai

Summary

India and Iran have finally signed a 10-year operational contract for India to develop the Shahid Behesti terminal at the Chabahar port. Conceived more than two decades ago, this project faced delays as it was mired in complex geopolitical challenges. The project, seen as India's response to China's Belt and Road Initiative, offers manifold trade and strategic alternatives not only to India but other countries seeking to access markets and regions in Asia and Africa. The project will significantly enhance the global supply chain and save on time and transit costs.

India and Iran signed a 10-year contract on 13 May 2024 for the operation of the Shahid Behesti terminal at the strategically important Chabahar port in Iran. [Chabahar is a deep water port](#) in Iran's Sistan-Baluchistan province. It is the Iranian port closest to India and is located in the open sea, providing easy and secure access for large cargo ships. Situated on the Gulf of Oman and initially proposed for development by New Delhi in 2003, it will serve as a crucial gateway for Indian goods to access landlocked Afghanistan and Central Asia.

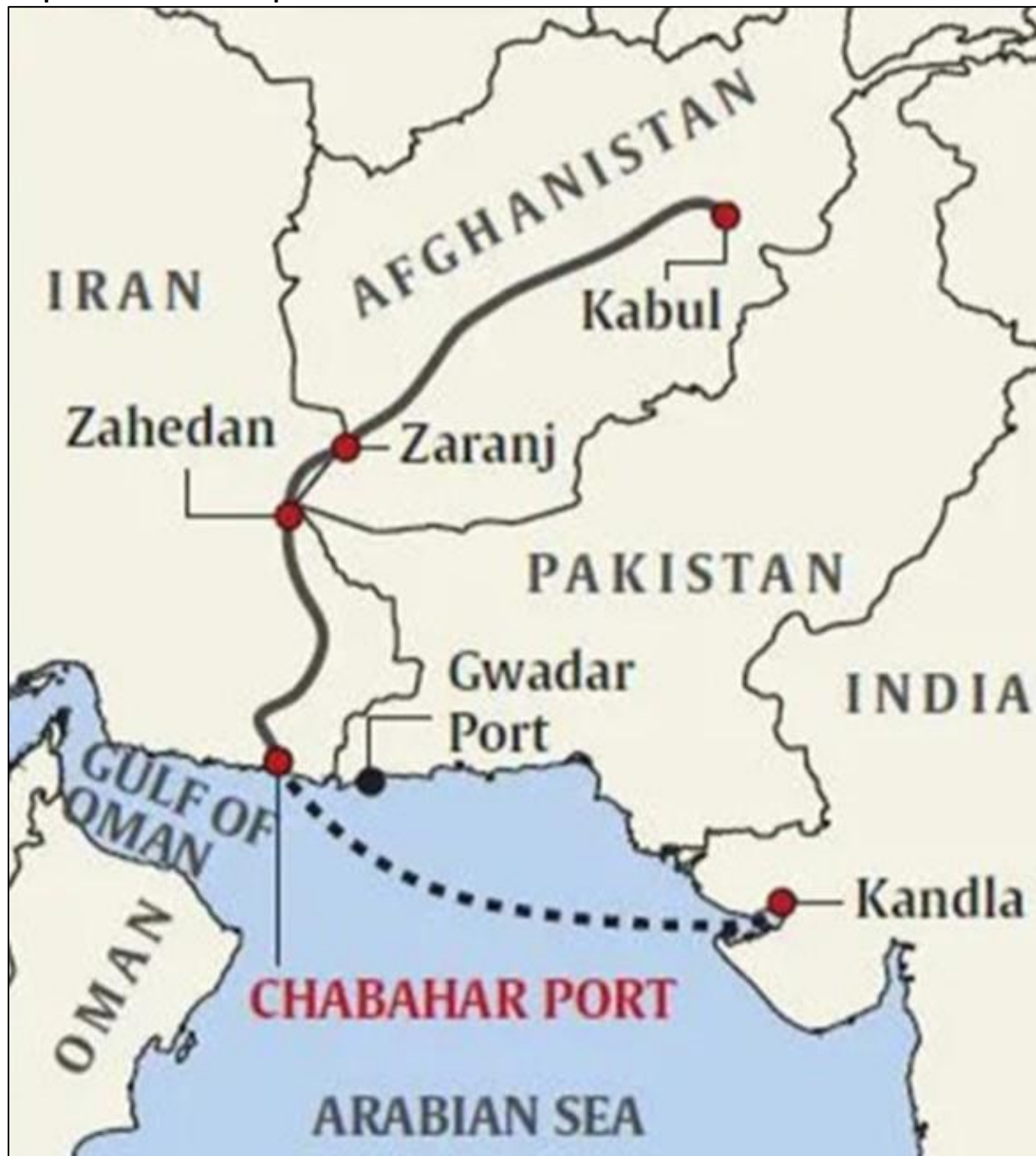
Positioned as a hub for transit trade between India, Iran and Afghanistan, the port offers an alternative route to the traditional Silk Road through China. With its strategic location near the Strait of Hormuz and the Indian Ocean, the port provides a vantage point across various regions such as West Asia, Indian Ocean and Africa.

Map 1 is also part of the proposed International North-South Transport Corridor (INSTC), a multi-modal transportation project, initiated by Russia, India and Iran, envisaged to link the Indian Ocean and the Persian Gulf to the Caspian Sea via Iran, and onward to northern Europe via Saint Petersburg in Russia.

The port provides a strategic alternative that can bypass China and Pakistan's Gwadar Port. It will reduce transit time and significantly reduce freight costs. It will also enhance India's role in the supply chain and provide an alternative entry point for humanitarian aid. The operationalising of this transit line will hugely strengthen India's energy security by providing multiple options for trade routes. The benefits will accrue not only to India but to all other countries committed to a free trade and strategic environment.

India Ports Global Limited (IPGL), the agency to implement the project, will invest approximately US\$120 million (S\$162 million) to equip and operate the port for the duration of the contract. India has also offered a credit window in rupees equivalent to US\$250 million (S\$337.5 million) for mutually identified projects to improve infrastructure related to the port.

Map 1: Iran's Chabahar port



Source: *The history of Iran's Chabahar port, and its imperative for India*, Alind Chauhan, *The Indian Express*, 19 January 2024, <https://indianexpress.com/article/explained/explained-global/history-of-iran-chabahar-port-india-9117732/>.

Chabahar a Much Delayed Project

The New Delhi Declaration, signed in 2003 by then Iran President Muhammad Khatami and then Indian Prime Minister Atal Bihari Vajpayee, recognised that the countries' growing strategic convergence needed to be underpinned by a strong economic relationship. For India, Chabahar held immense strategic and economic significance, as it provided a route to reach Afghanistan — land access to which had been blocked by a hostile Pakistan.

The project, however, could not make much headway since India had begun to have close links with the George Bush administration in the United States (US) who had alleged that Iran, along with North Korea and Iraq, was hosting anti-US design. The US had discouraged the development of any strategic relationship between Iran and India. While India could construct a 218 kilometre-road from Delaram in west Afghanistan to Zaranj on the Iran-Iraq border to link with Chabahar, the development of the port itself remained stalled.

It was finally in April 2015 that [India's Prime Minister Narendra Modi](#) and Afghanistan's President Ashraf Ghani sought to work closely to make the port project a reality and to develop it as a viable gateway to Afghanistan and Central Asia. It was agreed that routes additional to the existing ones will provide a major impetus to Afghanistan's economic reconstruction efforts. While work progressed briskly post Modi's visit to Iran in 2016, the project faced headwinds yet again with the Donald Trump administration taking a strident view against Iran. Nevertheless, with deft diplomatic negotiations, India managed to get a waiver from the US administration for the project, citing the strategic importance of the project as access to Afghanistan. The Indian cause was assisted by the fact that the Chinese government was actively pursuing the Belt and Road Initiative.

After this diplomatic breakthrough, India set up harbour cranes and other port handling facilities to operationalise the port. Since December 2018, [IPGL has handled more than 90,000 20-foot-equivalent units of container traffic and more than 8.4 million metric tonnes of bulk and general cargo since then.](#)

The Benefits

With the operationalisation of the long-term investment, Chabahar has the potential to become an important hub to connect India with the landlocked countries of Central Asia and Afghanistan. However, to better realise its commercial and strategic potential, the development of the port must be integrated with the larger connectivity project of the INSTC. The INSTC envisages the movement of goods from [Mumbai to Bandar Abbas](#) in Iran by sea; from Bandar Abbas to Bandar-e-Anzali, an Iranian port on the Caspian Sea, by road; from Bandar-e-Anzali to Astrakhan, a Caspian port in Russia by ship across the Caspian Sea; and onward to other parts of Russia and Europe by rail.

It is undeniable that the project, once completed, will provide immense geopolitical security and trade benefits. However, its completion has its own challenges with the adverse sentiment of the US and the volatile situation prevailing in Afghanistan. Nevertheless, India has shown remarkable deftness in obtaining a waiver from the US to enable the signing of the 10-year contract and it is hoped that such deft handling will ensure its successful completion.

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Mr Vinod Rai is a Distinguished Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute in the National University of Singapore (NUS). He is a former Comptroller and Auditor General of India. He can be contacted at isasvr@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.