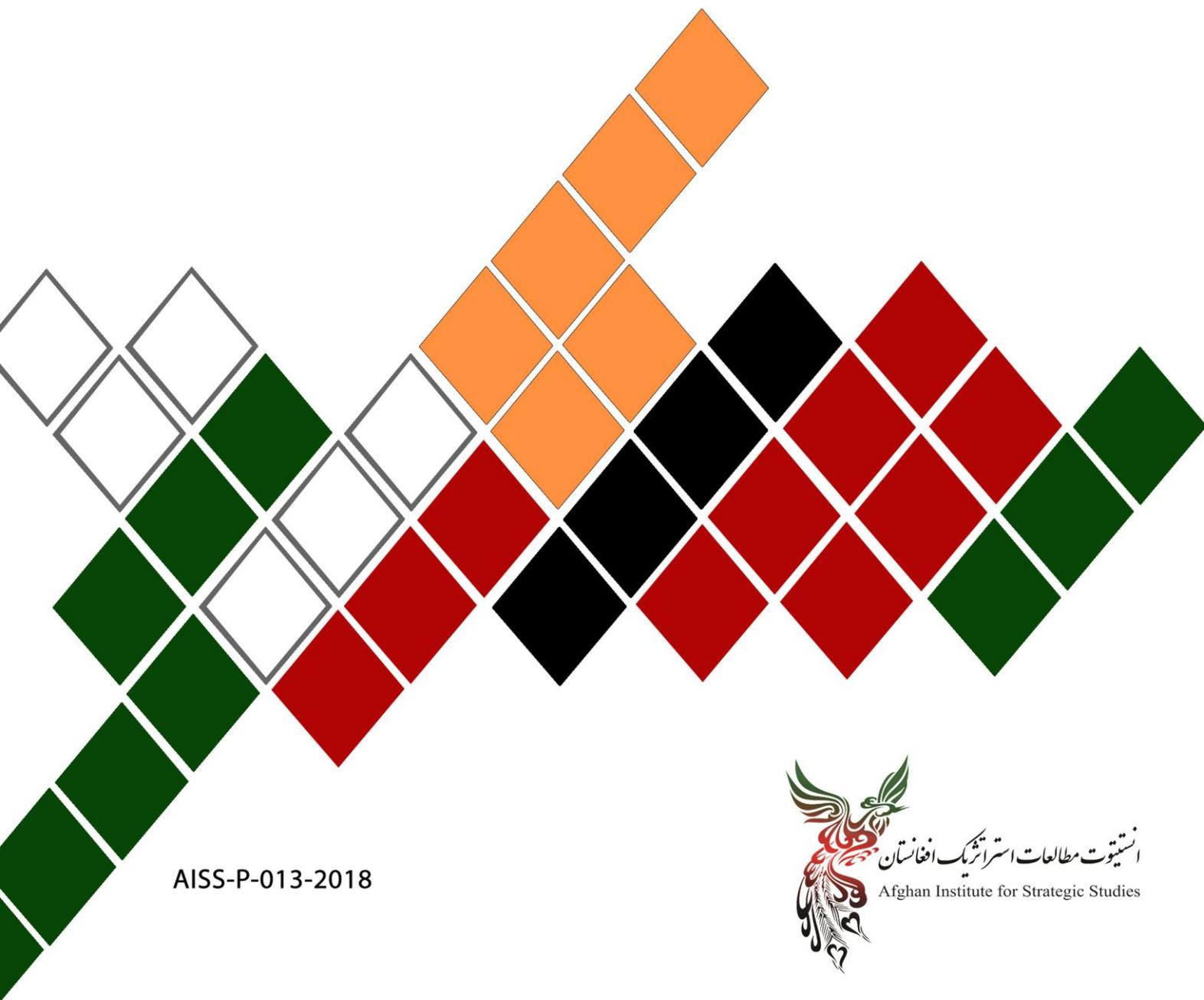


Strategic Analysis of The Chabahar Port

Afghanistan— Iran— India Relations

Kabul 2018



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STRATEGIC ANALYSIS OF THE CHABAHAR PORT

AFGHANISTAN- IRAN- INDIA RELATIONS



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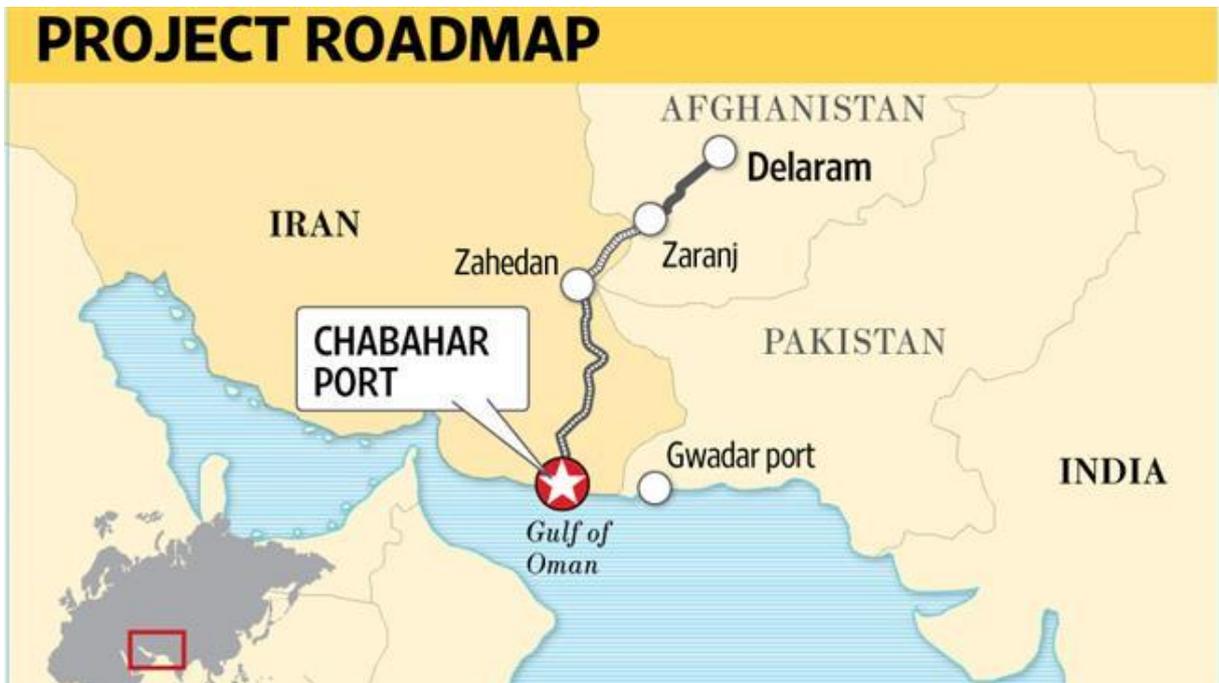
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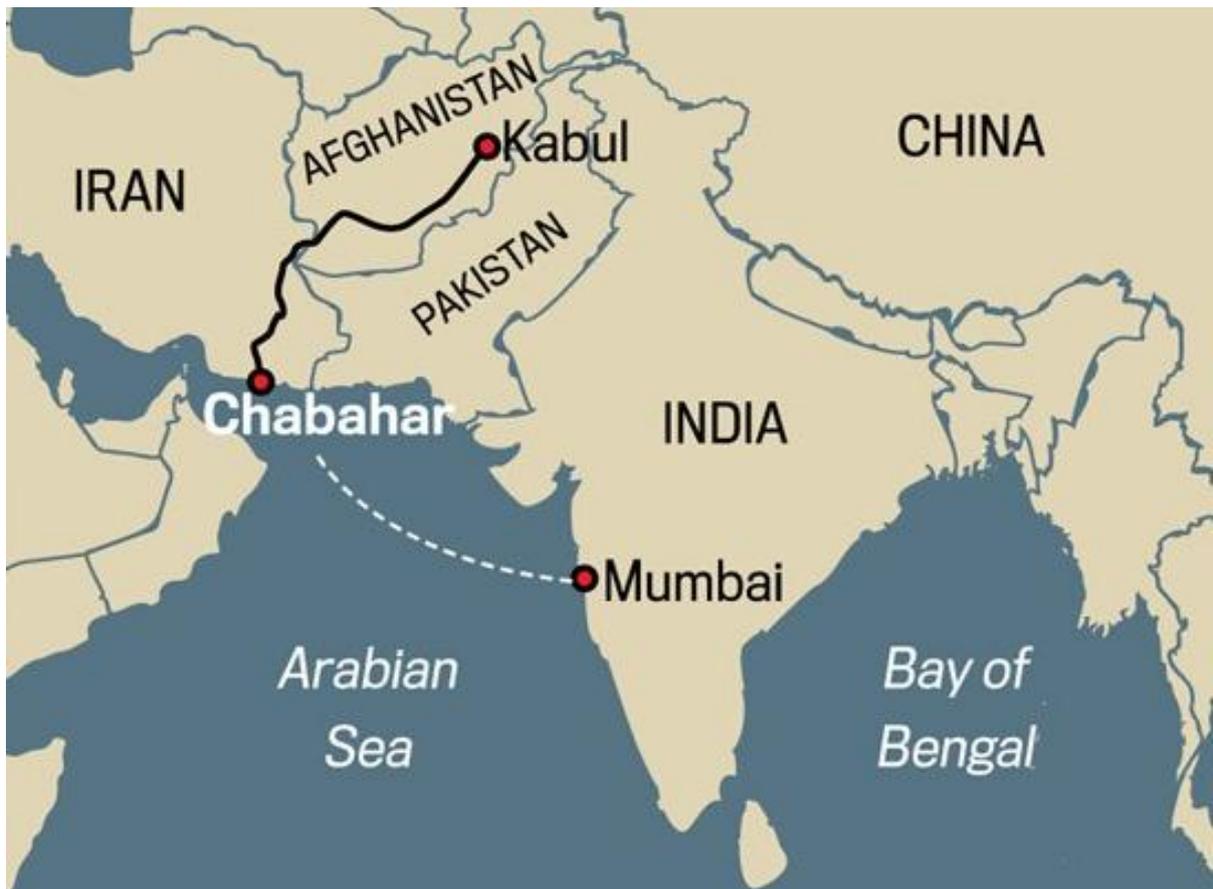
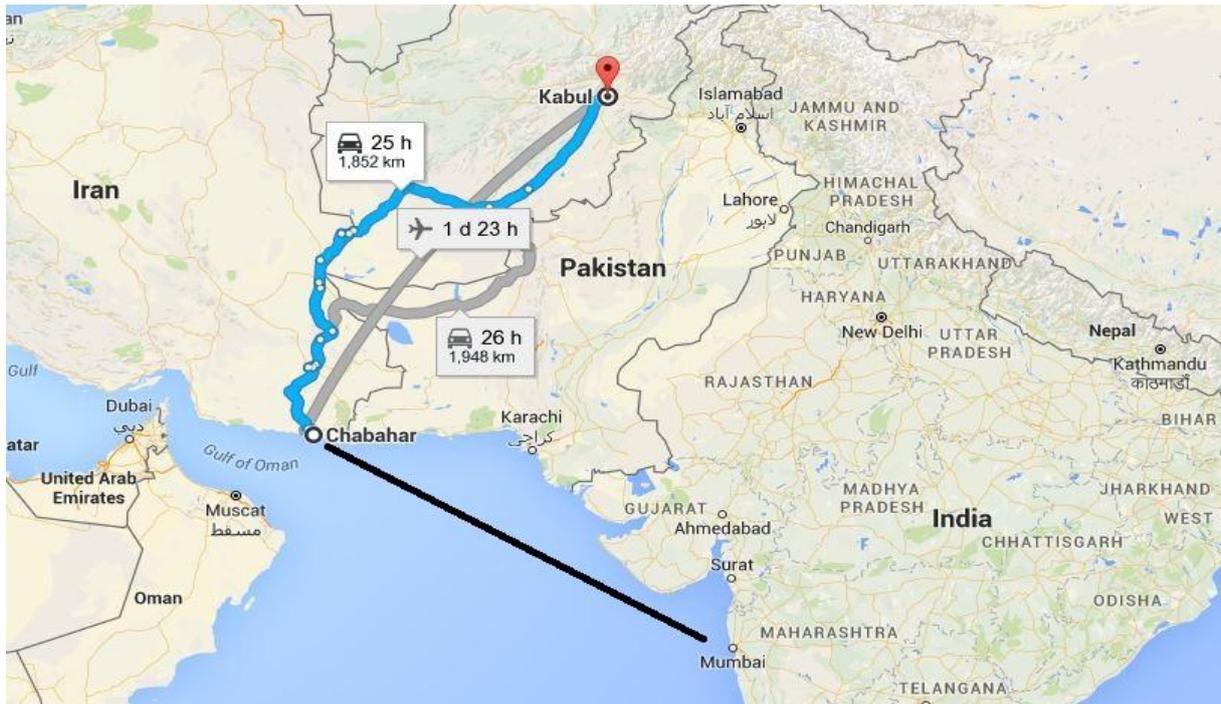
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MAPPING:







SECTION ONE

AFGHANISTAN PERSPECTIVE

ABDUL QADEER MUTFI
AISS



AFGHANISTAN INSTITUTE FOR STRATEGIC STUDIES (AISS)

Mission:

The Afghan Institute for Strategic Studies (AISS) was established in October 2012 and has since become a premier research institution in Afghanistan. It aims to create an intellectual space for addressing strategic issues pertaining to Afghanistan in the wider regional and international contexts. AISS seeks to foster timely discussions on Afghanistan by publishing high-quality research reports and promoting dialogue amongst a wide spectrum of stakeholders. All our activities and programs are based on the principles of Professionalism, Independence, Internationalism and Progressive Values.

Objective and Goals:

The AISS is an Independent and not-for-profit research institute dedicated to providing quality, non-partisan and policy-oriented research, publication, translation of books/reports, professional trainings, and policy advocacy with distinct focus on Afghanistan. A cross-cutting priority of AISS is to empower the youth through specific programmatic initiatives, as the youth represent the future of the country.

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EXECUTIVE SUMMARY

Chabahar is located in Southeast of Iran in the Sistan and Baluchistan provinces. The port provides easy access to the Indian Ocean as well as the Oman Sea and Persian Gulf. The work on this port started in 1973 but the Iranian Revolution delayed its development. The port proved vital during Iran-Iraq War since Iran carried out its trade through it. The government in Iran made plans to expand this port and make it functional but economic and trade sanctions imposed on Iran due to its nuclear program made it difficult for the government to allocate required funds for this project.

Project Background and Justification:

Recently, Afghanistan, India and Iran have reached a consensus, called the Chabahar Agreement, which will give Afghanistan access to Mumbai via the port of Calamari in the Iranian city of Chabahar that is located on the coast of the Gulf of Oman. This is a major strategic gain for Afghanistan for getting access to the Indian Ocean via Chabahar port and to markets across the world. Not only will it give Kabul immediate access to Iran and India, it will, in the longer term, provide the country with access to the energy resources of Central Asia. Although Afghanistan is a land-locked country, it is a potential regional hub.

Afghanistan's foreign trade is dependent upon its main transit routes, which cross Pakistan. Like any other land-locked country, Afghanistan faces high transport costs and long delivery delays. At the same time, due to its strategic geographic position, Afghanistan has the potential to become a land-linked country. The Chabahar port implication for Afghanistan is very much important. It will connect Saranj-Herat, Kandahar, Kabul and Maar-e-Sharif, to Central Asian economies. Chabahar port will give India access to Central Asia's rich oil and gas reserves. Oil and gas are important for hydrocarbon-starved countries like India. The port gives access to the International North South corridor, which additionally helps in providing access to the Central Asian Republics. The strategic location on the Gulf of Oman is of huge political significance. It is the new beginning for Afghanistan-India and Iran relations.

Project Goal and Objectives:

- 1- The objective of this document is to present the research and analysis of the Chabahar port and its geo-political importance, the distinctive roadmaps based on prior division of thematic areas followed by different related topics.
- 2- Furthermore, the document includes the synergies of the International Trade Forum project with Sustainable Economic Development, thereby building preliminary suggestions for the updated action plan for research, standardization of Afghanistan international relations, as well as actions for industry (trade, economic development, construction sector, ICT sector, and energy sector), policies and regulations.

Project Outcome and results:

- 1- To highlight the significance of the Chabahar port's development strategy planning. This allows for the maximum container transit with minimum resources such as service capacities, human resources, and financial potential in order to expand the Afghan container transit.
- 2- It should be noted that the strategic objectives, the business strategy and its implementation can be arranged only after the port vision and mission are clearly and collectively delineated.
- 3- For the purpose of improving the outcome of the ports operational management, it is recommended to concentrate on new strategies such as exploit of transit corridors for development of the Afghanistan ports. The main part of this paper is dedicated to evaluating the role of Chabahar and its strategic depth and its importance in providing Afghanistan an alternative to Pakistan for its maritime route. Afghanistan will have access and potential competitors in the Persian Gulf, thereby making partnerships between India – Iran for the consequences of trade.

Economic Implications for Afghanistan:

Afghanistan has traditionally been denied access to international markets. India and Iran are nations looking to trade with Afghanistan. The land access is severely controlled; trade is hampered by the presence of Pakistan. It is estimated that Afghanistan has \$3 trillion of untapped wealth, which can be used to earn revenues for the government. The Chabahar port project is crucial for Afghanistan since it would enable shipping goods to Middle East and Europe as well as allow inflow of vital goods to Afghanistan. Economically it would imply a significant boost to its trade and investment in much-needed infrastructure. This has now become a distinct possibility with the US and Iran about to reach an understanding on Iran's Nuclear program.

India has historically enjoyed good relations with Afghanistan. They do not share a border; their physical detachment presents a logistical dilemma. Since 2001, India has taken on a number of sizable infrastructure projects in its development assistance program in Afghanistan. One of these projects is the Zaranj-Delaram Highway, a 135-mile-long highway that connects Zaranj in Nimruz province, near the Iranian border, with Delaram in neighboring Farah province, and the Afghan-Iranian border with Kandahar-Herat highway in Delaram. The construction of the Zaranj-Delaram highway connects the Chabahar port on the Gulf of Oman to the 1,300-mile Afghanistan Ring Road. It connects 16 of country's 34 provinces, stretching from Herat, Mazar-i-Sharif, Kabul, Ghazni, and Kandahar and to Tajikistan's Gorno-Badakhshan province. The highway creates North-South transport corridors linking the Indian subcontinent and the land-locked Central Asia. The new infrastructure enables Afghanistan to access the Arabian Sea through Iran, and raises its potential to stimulate more investment from trade with outside powers like India.

Discussions among India, Iran, and Afghanistan over the use of Chabahar port have been going on for some time, but have accelerated since the P5+1 nuclear deal with Iran. Iran's recent emergence from sanctions will alter the regional dynamics. The port will provide India access to Central Asia, and investment in the port will yield immediate strategic gains for India.

On May 6, 2015, New Delhi and Tehran signed a memorandum of understanding worth \$195 million to secure India's participation in the development of Chabahar port. The Chabahar port allows India, the world's fourth largest energy consumer, to access Iran's crude oil reserves of over 150 billion barrels and 1,187 trillion cubic feet of gas reserves. It also allows India access to the added energy resources in Central Asia, where Kazakhstan and Turkmenistan possess 30 billion barrels of oil and 265 trillion cubic feet gas reserves, respectively, and Kazakhstan holds 679,300 tons of uranium and more than 37,000 million short tons of recoverable coal reserves. In addition, it provides India with access to Iran's and Central Asia's oil and gas reserves.

Chabahar port will help India to meet its maximum trade potential with Central Asian countries. Currently, India lags far behind major regional players such as China, Russia, and Turkey in trading volumes with Central Asia strictly because of access limitations. For example, India's trade with Kazakhstan, its largest Central Asian bilateral trading partner, was worth \$952 million in 2014 and 2015, and \$315 million with Uzbekistan in 2014. Conversely, China-Kazakhstan bilateral trade reached \$22.53 billion in 2013 and China-Uzbekistan trade turnover accounted for \$4.75 billion in 2014. In fact, according to some estimates, India has the potential to reap up to \$450-500 billion in trade through Central Asia and Afghanistan. The integration of India with Central Asia and Afghanistan through the Chabahar port, then, could enable it to increase its trade level to its maximum potential.

Afghanistan, meanwhile, lacks the infrastructure necessary for connectivity and extracting its prodigious deposits of oil, gas, and minerals. Since 2001, the Afghan government and international donors have built around 5,700 miles of road, with USAID building at least 1,325 miles alone. Despite such efforts, approximately 50 percent of Afghanistan's roads are still in poor condition, and a number of strategic road corridors have yet to be concluded, including the Ring Road. President Ashraf Ghani's efforts to make the procurement process and management of large development projects — including infrastructure projects — more efficient and transparent are encouraging. But there is also an urgent need to create a stronger institutional environment for the infrastructure sector. With little infrastructure maintenance knowledge and a limited labor force in Afghanistan, there is rapid deterioration and even less enforcement of road use. If a truck is carrying twice what it should, it causes four times the damage on the roads. Afghanistan is sorely behind in developing and issuing road use rules and weight limits, and even further behind in enforcement. Until this is addressed, the roads will always be in a state of deterioration. That could impact the use of Afghanistan as a trade route by Uzbekistan and Tajikistan.

Significance of Chabahar Port for Iran:

Iran is a large country. Its southern and eastern parts are underdeveloped and are marred by insurgency. Development of Chabahar port will bring great benefits for these under developed areas. Connection of Chabahar with Afghanistan and Central Asia will boost Iranian economic growth and development.

The main significance of Chabahar port for Iran is that the Chabahar and Zahedan ports will link Delhi to the rest of Iran's railway network. Moreover, Iran will find the easy way to enter Afghanistan and other central Asia countries. Afghanistan's market is important for Iran because most of the products that Afghanistan imports come from other countries and Iran serves a significant transit country for those goods.

Importance of Chabahar Port for India:

Chabahar port offers access to Afghanistan, Central Asia and Europe, and India became involved in building this port in 1990s to gain access to these regions. Chabahar port holds importance in Indian economic ambitions. India is busy constructing roads in Iran and Afghanistan in order to connect Chabahar with Afghanistan and Central Asia.

Between 2005 and 2009, India spent \$100 million to construct a road from Delaram in Afghanistan to Zarnaj at the Iran-Afghanistan border. Iran has also constructed a road between Chabahar and Milak, which is close to Zarnaj. Through Milak, Zarnaj and Delaram connectivity has been established to the Afghan “Garland road” which connects the major cities in Afghanistan, Herat, Kandahar, Kabul and Mazar-e-Shareef. Once this port is integrated with International North South Transport corridor, India will have access to Russia and Europe. This port will also provide India access to Middle East. Studies indicate that the corridor at Chabahar could bring down costs as well as the time taken to transport cargo trade to Europe by approximately 50 % for India.

India’s Plan for Chabahar:

A) India will develop and operate the Chabahar port. India Ports Global, a recently formed port project investment arm of the shipping ministry and a joint venture between the Jawaharlal Nehru Port Trust and the Kandla port, will invest \$85 million in developing two container berths with a length of 640 metres and three multi-cargo berths.

B) From the third year, India will facilitate 30,000 TEUs (Twenty Foot Equivalent) of cargo at the port. The quantum will rise to 2,50,000 TEUs by the 10th year.

State run railway body IRCON International will set up a railway line at Chabahar to move goods right up to Afghanistan. The 500-km rail link between Chabahar and Zahedan will link Delhi to the rest of Iran's railway network. Also, part of the agreement is a free trade zone where a total investment of Rs 1 lakh crore is envisaged. Indian companies would set up a range of industries from aluminium smelter to urea plants in the region. State-owned NALCO will set up an aluminum smelte.

There are a multitude of reasons why Chabahar Port is important for India. The region provides direct access to and connects three regions: Central Asia, South Asia and West Asia. It is also major junction of shipping and oil trade routes. The region holds two-thirds world oil reserves; estimated 17 billion barrels of crude oil passes this way daily. Keeping aside the political importance of the port, it is more important economically and strategically.

INDIA- IRAN- AFGHANISTAN:

Afghanistan has a long history of trade with both the countries. But in recent times, it has become extremely difficult to trade with India, and the prime reason is Pakistan. Pakistan has exploited its geographic position to its advantage and thus limited access for Afghanistan products to India and viceversa. With this deal, Chabahar port and ports across western India would be directly linked together, thus providing an important route for trade between the three countries. This is an important step in maintaining independence and bypassing Pakistan altogether.

For all the participants, the economic rewards of this pact are immense. The development of Chabahar port and the connecting transport-and-trade corridor has the potential to unlock the untapped energy and mineral riches of Iran, Afghanistan, and Central Asia for export to India, one of the largest and fastest growing economies in the world.

For India, a fast growing economy presents an insatiable need for energy and raw materials. The Chabahar pact ends the country's economic isolation from Central Asia, opening access that has been choked by an unfriendly Pakistan since 1947. In the long run, India's connectivity could expand to Russia and Europe, adding further economic vibrancy to India-Iran-Afghanistan cooperation.

Iran needs no introduction as an energy supplier. What is momentous is that Iran is also emerging as the gateway between Central Asia and India and furthermore an Indian manufacturing hub by creating a junction of cheap energy and Afghan raw materials for Indian markets.

Though currently impoverished, Afghanistan is a mineral rich country. The U.S. Geological Survey has verified previous Soviet findings. Afghanistan may hold 60 million tons of copper, 2.2 billion tons of iron ore, and 1.4 million tons of rare earth elements such as lanthanum, cerium and neodymium, in addition to aluminum, gold, silver, zinc, mercury, and lithium. Rare earth deposits in Helmand province alone are valued at \$89 billion. Total Afghan mineral wealth is estimated between \$1 to 3 trillion, according to the U.S. Geological Survey. Such mineral deposits have remained untapped due to the lack of connectivity to a major economy, among other factors. Such constraints will be addressed through this new connectivity to India. Afghanistan might be able to jump-start the engine of modern economic growth and move the economy beyond poppy cultivation. Also, a successful corridor further enforces Afghanistan as a transit route for oil and natural gas exports from Central Asia to the Arabian Sea. The resources generated from mining, the export of raw materials and later finished commodities like iron and aluminum could have a transformational impact on Afghanistan's economy, society, and politics.

Beneficiaries and Stakeholders:

Beneficiaries of this project can be categorized in two parts:

- 1- Specific beneficiaries: the results and findings of this research project can be used by policy makers of involving countries both at government levels and business forums.
- 2- General beneficiaries: the ordinary citizens of the country are all among the general beneficiaries of this project.

METHODOLOGY

The methodology for this paper is to present the Strategic Analysis of Chabahar port - Afghanistan -Iran and Indian relations. A literature study was used to describe the history and trends in port development in order to find an approach to define the development of the tasks and infrastructure of ports, especially the port authority. Strategic models from the port literature are presented and used to construct a framework for how to structure the development of smaller ports. This framework is then evaluated against different projects to analyze if there is correlation between the model and the real world.

INTRODUCTION

THE STRATEGIC ANALYSIS OF CHABAHAR PORT

Afghanistan- India – Iran Relations

The Sea Politics is getting complex with an increase in world's commercial activities. Now the world is not only focusing on the militarily important places but it is also in the search of places that will be productive from the business point of view in future. It is important to note that many countries in Asia are so huge, that their access to the sea via their own land route for international trade is very costly. They are searching for a shortest possible route for themselves.

Recently Afghanistan, India and Iran have reached a consensus, called the Chabahar Agreement, which will give Afghanistan access to Mumbai via the port of (Shahid Kalantari Port is almost a fishing port, it should be replaced by Shahid Beheshti Port) in the Iranian city of Chabahar that is located on the coast of the Gulf of Hormuz through which pass 35 percent of the world's seaborne oil shipments and 20 percent of oil traded worldwide. More than 85 percent of these crude oil exports go to Asian markets, with Japan, India, South Korea and China being the largest destinations. India is helping develop the Chabahar Port, which will give it access to the oil and gas resources in Iran and the Central Asian states. Tehran plans to use Chabahar for transshipment to Afghanistan and Central Asia. According to trilateral signed agreement between Afghanistan- India and Iran to give Indian goods, heading towards Central Asia and Afghanistan, preferential treatment and tariff reductions at Chabahar. India has also finalised a plan to build a 900km-long railway line from the Afghan province of Bamiyan to Chabahar port. Chabahar provides India an easier land-sea route to Afghanistan This is a major strategic gain for Afghanistan for having access to, Indian Ocean via Chabahar port and to all over the world. Not only will it give Kabul immediate access to Iran and India, it will, in the longer term, provide it with access to the energy resources of Central Asia. It will enable Afghanistan having access to International Markets, best and near route of trade and it will be the alternative for the most problematic ports.

Although Afghanistan is a land-locked country, it has the potential to become a regional economic hub. Afghanistan's foreign trade is dependent upon the main transit routes which cross Pakistan. Like any other land-locked country, Afghanistan faces high transport costs and long delivery delays. At the same time, due to its strategic geographic position, Afghanistan has the potential to become a "land-linked" country. The implication of Chabahar port for Afghanistan is too much important. Zaranj-Herat, Kandahar, Kabul and Mazar-e-Sharif, and to Central Asian economies. Future plans include an International North-South Transport Corridor through Iran to Russia and Europe. According to trilateral agreement between India, Iran and Afghanistan on Chabahar port development- Afghanistan has not only accessed Indian Ocean, it has access to Oman Sea, Persian Gulf and other Arabic states. Due to political tension between Afghanistan and Pakistan Afghan trade is seriously affected because most of Afghan products is exported to India via Gawadar According to The Afghanistan-Pakistan Transit Trade Agreement (also known as APTTA) is a bilateral trade agreement between Pakistan and Afghanistan has been renegotiated several times. The treaty, signed in 1965, gave Afghanistan the right to import duty-free goods through Karachi. But several times the agreement was not applied because of political tensions. "Chabahar port will also reduce the dependence of Afghan traders on the Karachi port of Pakistan.

Chabahar is an alternative for Afghan transit trade, and its opportunity for Afghan trade to access sea via Iran and India. Through this agreement both Iran and India will provide facilities of Investment and export. According to Agreement Iran has allocated 50 hectares of land to Afghanistan in Chabahar free trade zone and 130 Afghan companies have already registered there.

The work on this port started in 1973 but the Iranian Revolution delayed its development. The port proved vital during Iran-Iraq war since Iran carried out its trade through it. The government in Iran made plans to expand this port and make it functional but economic and trade sanctions imposed on Iran due to its nuclear program made it difficult for the government to allocate required funds for this project.

The inauguration of the first phase of the Chabahar port by Iranian President Hassan Rouhani in the presence of officials from 17 countries. India is central to this port project as it remains keen on opening a trade route to Afghanistan and Central Asia, bypassing Pakistan, as part of an agreement signed between India and Iran in May 2016. India is to equip and operate two berths in Chabahar Port Phase-I with a capital investment of \$85 million and an annual revenue expenditure of \$23 million on a 10-year lease. This will establish a Transit and Transport Corridor among the three countries using Chabahar Port as one of the regional hubs for sea transportation in Iran. This is in addition to the multi-modal transport of goods and passengers across the three nations. The port is expected to be operational by the end of 2018, with New Delhi committed to developing a free trade area around the port, and finally completing the loop with a \$1.6 billion railway line to Zahedan.

In October 2017, India sent its first shipment of 15,000 tonnes of wheat to Afghanistan through Chabahar, the shipment arrived in Zaranj on November 11. India's External Affairs Minister made a stopover at Tehran just a day before the port's inauguration while returning from Russian city of Sochi after attending the annual summit of the Shanghai Cooperation Organisation (SCO) to assess the project. To underscore the importance of this project for India, Indian Minister of State for Shipping Pon Radhakrishnan was present at the inauguration ceremony of the Phase 1 of the Shahid Beheshti Port at Chabahar.

Given the easy accessibility of the Chabahar port in the Sistan-Balochistan province on Iran's southern coast from India's western coast, many observers view it as a counter to Pakistan's Gwadar Port, which is being developed with Chinese investment at distance of around 80 kms from Chabahar. There may be something to this, but there is also a larger dynamic at play here in terms of regional connectivity. India, Iran, and Afghanistan are working towards integrated development of connectivity infrastructure including ports, road, and rail networks to open up greater opportunities for regional market access and the integration of their economies. India has already completed the Zaranj-Delaram highway in Afghanistan, which would facilitate land-based trade to Kabul and eventually beyond, to Central Asia. At a time when China's Belt and Road Initiative is attempting to redraw regional boundaries, India and other regional players are looking at enhancing their own regional connectivity profiles.

For Iran, the development of the Chabahar port with international assistance is a highly symbolic move to let the United States know that Tehran is no longer isolated. After Tehran

signed the Joint Comprehensive Plan of Action with Washington and five other major powers in 2015 to curtail its nuclear program in exchange for relief from economically debilitating sanctions, the Chabahar project gathered pace as it allowed Iran to enter into negotiations with India, China, and Europe on investment and supply of equipment. Indian Prime Minister Narendra Modi's visit to Iran in May 2016 saw the two sides firming up their stakes in the project based on a strict timeline

The challenge today will be to sustain this momentum in the aftermath of Trump Administration's opposition to the nuclear deal. Geopolitical tensions between Saudi Arabia and Iran are rising with Tehran being accused of expanding its influence in Yemen, Iraq, Syria, and Lebanon through its proxies. U.S. Secretary of State Rex Tillerson has suggested that Washington does not want to "interfere with legitimate business" done with Iran, "whether they be from Europe, India, or agreements that are in place or promote economic development and activity to the benefit of our friends and allies." But the shadow of shifting American foreign policy priorities will continue to hang on the future of the Chabahar project even as it ambitiously seeks to reshape regional geopolitics.¹

GOALS:

The strength of a country can be determined by various factors above all it is economy as if a state possess strong economy then international community will also give attention towards its issues. By dividing economy into various heads industry is just one component of economic development. Behind industrial development effective policy mechanism, bureaucratic structure of decision making and some other things determine the economic strength. And Afghanistan economy with massive natural resources and man power and also has massive economic growth potential. Chabahar project will impact on Export Development infrastructure development and will afford foreign direct investment. The Chabahar as a transit point will be the center of a regional trade, investment and transportation hub with links from the Indian Ocean to Central Asia. For the first time, Afghanistan will get access to the region through friendly nations.

Structural changes in international trade and the evolution of maritime transport have a direct impact on port growth and expansion Globalization, production, trade, and ports

Globalization, or the expansion of markets and hence of the economic prospects of societies, is taking place not only because of the supra-national nature of markets, but also because of the flow of foreign investment and the strategies of multinational enterprises. These multinationals today account for two-thirds of global exports of goods and services and nearly 10% of domestic sales worldwide.

In this environment of increasing interdependence in the world, the international division of labor is changing as a result of structural changes in trade and unprecedented mobility of international capital.

However, while the integration of goods and services and capital is progressing at a rapid pace, integration of the labor market is much slower. In addition, ever more sophisticated

¹ <https://thediplomat.com/2017/12/the-challenging-geopolitics-of-the-port-at-chabahar/>

technologies are being disseminated, in a framework of spectacular streamlining in communications and telecommunications.

The development of information technology has, in turn, boosted productivity and, in many cases, worker income. In general, electronic transactions and communications technology have been the necessary complement to full internalization and globalization and their major impact on production and world trade.

As per the MoU signed between India and Iran in May 2016, India is to equip and operate two berths in Chabahar Port Phase-I with capital investment of USD 85.21 million and annual revenue expenditure of USD 22.95 million on a ten year lease. Ownership of equipment will be transferred to Iranian side on completion of 10-year period or for an extended period, based on mutual agreement. Besides the bilateral pact to develop the Chabahar Port, for which India will invest USD 500 million, a trilateral agreement on Transport and Transit Corridor has also been signed by India, Afghanistan and Iran.

CHALLENGES:

India, Iran and Afghanistan formally signed the agreement in May 2016 to complete the port in about 18-24 months. Since the Gwadar port is already functional, there is all the more urgency on India's part to move swiftly with its commitment at Chabahar. Gwadar and the geographical area around it have already been ceded by Pakistan to China for the latter's effective control.

Strategic analysts feel that eventually, the Chinese would be placing its troops there on the pretext of protecting its investments and other interests in the region. Therefore, a much stronger push at Chabahar is needed because this is a strategic move worked out by India to facilitate India's involvements and stay engaged in Afghanistan. This would strategically put pressure on Pakistan, many feel that India should not be part of the Chinese-sponsored CPEC corridor as it would be going through Indian disputed territory. But from other side the development of the Chabahar port will provide Afghanistan an alternative and reliable access route into Indian Ocean, using India's earlier investment in the Zaranj-Delaram road built in Afghanistan, and also a reliable and more direct sea-road access route into the South Asian region. The Chabahar port's location at the Arabian Sea means that it would be able to skirt any challenges posed by developments in the Persian Gulf and Strait of Hormuz.

INVESTMENTS IN AFGHANISTAN VIA CHABAHAR:

Statistics on FDI in Afghanistan are unavailable and/or unreliable. FDI flows increased by 25% in 2013, primarily due to the Government's efforts to allocate more land to industries and the organisation of several trade exhibits.

After reaching its lowest level in the last 10 years in 2013 (USD 39.6 million), FDI inflows have increased substantially to reach USD 163 million in 2015. This figure is still low compared to the inflow levels the country received between 2004 and 2007 (with an all-time high inflow of USD 271 million in 2005) as a significant share of FDI was linked to the intervention of NATO armed forces and associated development projects. Inflows dropped once again in 2016

to USD 100 million. According to the most recent data provided by UNCTAD, FDI stock represented 7.2% of the country's GDP in 2016.²

Afghan law guarantees foreign companies the same investment opportunities as domestic enterprises, and official support for open markets and private sector participation is restated in the Afghanistan National Development Strategy (ANDS). Foreign investors are not required to have an Afghan partner, but due to the restriction on land ownership, they almost always choose to work with one. Private investors have the right to transfer their capital and profits out of Afghanistan, including for debt service for off-shore loans. However, political violence, weak regulations regarding property protection, a substantial lack of skilled workforce, under-developed financial markets and insufficient infrastructure limit the country's potential for attracting foreign investors. Corruption is rampant in the country, as that the World Bank ranked the state 183rd (out of 190 countries) in its Doing Business 2017 classification, losing six positions in comparison with the previous year.³

China has invested in the oil industry and India in the mining sector. In 2014-2015, China became Afghanistan's largest investor. It is estimated that Afghanistan's mining sector will represent 42-45% of its GDP by 2024 and will generate USD 4 billion in revenues in 2024. However, in 2015, the security situation in the country impeded progress on these projects.

Chabahar will provide the magnificent opportunity strategic and commercial option for Afghanistan. Logistically, Chabahar port is the closest harbour to Afghanistan. It is 700km closer than the other Iranian port, Bandar Abbas Port. It is also 1,000 kms closer than Karachi Port in Pakistan. Chabahar is the strategic game changer in the region, involved countries hope that Chabahar project will transform Afghanistan into regional and economic hub as well as further boost the growing ties between Afghanistan India and Iran.⁴

The main sectors which have capacity of investment via Chabahar are below.

AGRICULTURE SECTOR:

Agriculture sector in Afghanistan played the significant role in the economic growth and development. Chabahar will provide the facilities for the Foreign Direct Investment in the Agriculture sector for both Indian and Iranian traders. The development is central to the decade of transformation (2015-25) and long-term security for the people of Afghanistan. Afghanistan recognized that agriculture development is a key to inclusive growth.⁵

AFGHANISTAN MINING SECTOR:

The development of societies signifies that mankind has been able to achieve major and remarkable achievements through using natural resources and processing the minerals, thus securing an immense amount of wealth for their welfare and prosperity.

Currently, natural resources are increasingly becoming more precious due to its high level of usage and the pivotal role it plays in economy growth as well as the improvement of social welfare. Being rich in untouched natural reserves, Afghanistan stands among rich countries for

² UNCTAD World Investment Report 2017: <http://unctad.org/wir> or <http://unctad.org/fdistatistics>

³ Worldbank “<http://www.worldbank.org/en/country/afghanistan>”

UNCTAD World Investment Report 2017: <http://unctad.org/wir> or <http://unctad.org/fdistatistics>

⁴ Ministry of Commerce and Industries, Islamic Republic of Afghanistan “<http://moci.gov.af/en>”

⁵ Afghanistan Investment Support Agency (AISA) “<http://investinafghanistan.af/about-aisa/>”

its natural resources. Through provision of enabling environment and better alignment of mining sector, concrete efforts can be made to develop socio-economic infrastructure and reduce poverty by effectively exploring and exploiting minerals resulting in the prosperity and development of the country. This is indicative of a bright and prosperous future.

After its establishment in 1318 equivalent to 1939, and limited experts and engineers as well as limited financial and technical resources, Ministry of Mines and Petroleum has done major activities with assistance and cooperation provided by expatriates of USA, UK, Germany, France, ex-Soviet Union and Czechoslovakia.

However, basic and systematic studies of solid mining geology in Afghanistan were kicked off in tandem with establishment of Geology Survey Department in 1955. Field groups were established within the framework of Geology Survey Department in order to carry on related services. The number of these groups reached 27 groups in 70s.

With concrete efforts made by Mining Survey Office a directorate under Ministry of Mines and Petroleum in 1977, geological map of Afghanistan was prepared at measurement of 1:500000 in which over 400 mine reserves have been identified including Ainak Copper, Coal and a number of small and medium mines such as gold, silver, platinum, zinc, nickel, emerald, lapis, ruby, Canset, Turmalin, Florite, Cromite, salt, radioactive elements and tens of mines with 14 types of colors plus a number of construction materials.

A geological survey lab complex was established which was unique of its type in the region and had the potentiality to analyze and study field models and there was no need to send materials abroad for analysis.

Sar-e-pul oil reserves has been identified (44.5) million tons with the extractable reserves reaching 14.5 million metric tons. During the past several years, about 5 oil and gas fields have been identified in Afghanistan. More work has been carried out at the vicinity of Oxus River, and Afghan-Tajik areas. During 1355-1356, geological activities have been conducted at Katawaz area with cooperation from experts of French Company. However, no remarkable work has been carried out in southwestern parts (Helmand) and the west (Herat).

INDUSTRY:

Significant outcome achieved during last years are the establishment of fertilizer and power plants of Balkh with capacity of 110000 tons urea each year and 48-megawatt power per hour, establishment of Ghorri cement factory with capacity of 100000 tons per year, Jabal Seraj Cement with maximum capacity of 3000 tons per year, Herat cement factory and Ghorri 2 with capacity reaching separately 700-800 tons each day. 80 percent of the work was completed with its machineries being transferred, however, due to civil war in the country, it was unable to keep on functioning.

Ministry of Mines and Petroleum has carried out major activities in terms of establishment of textile companies, food industries, industrial parks, Jangalak factories, however, now the ministry is not leading the above factories.

During the years before war, almost 2 billion cubic meters of natural gas, 100000 tons of chemical fertilizer (urea), 48 Mega Watt electricity, more than 200000 tons of coal, 100000 tons of cement, 120000 tons of salt, 100000 cubic meters of construction material and small amounts of azure excavation, beret, abrak, talak and so on were obtained but due to

consequences of three decade war, laboratories of mines survey, northern oil and gas establishments, stone process factories and Jangalak factories have experienced big losses.⁶

ENERGY SECTOR:

The strategic vision of the government for the energy sector is “an energy sector that provides the citizens of Afghanistan and drivers of growth in the economy with long-term reliable and affordable energy access based on market-based private sector investment and public-sector oversight.”⁷ The overall energy sector goals include rehabilitation and expansion of the public power grid and attraction of private investments. Economic growth demands increased energy consumption; therefore, there is a direct relationship between per capita GDP and per capita energy consumption. The per capita energy consumption of Afghanistan was fourth in the region and greater than Srilanka and Bangladesh in 1980. At that time, Afghanistan was an exporter of natural gas to Russia but currently imports substantial amount of energy for its domestic consumption.

Historically, in Afghanistan most of the power generation has been based on hydro-power (generating over 54% of the total), and the rest from thermal sources (primarily through use of coal and natural gas). Afghanistan currently produces 600 million watts of hydro-power electricity, and there is huge potential of producing up to 23,000 million watts of hydro-power electricity. The demand for electricity is increasing steadily, and it is estimated that Afghanistan would require 3,000 MW of electricity to suffice its needs by 2020. Other than meeting its own demand, it can also export electricity to the neighbours and regional countries. In Afghanistan energy production can be done through any of the following resources:⁸

INFRASTRUCTURE DEVELOPMENT:

Afghanistan’s infrastructure was largely destroyed during the Soviet invasion, civil conflicts after 1979 and poor maintenance since then. During these 30 years of conflict, virtually no development happened in this sector; therefore, it now faces a substantial infrastructural deficit. After 2002, Afghanistan planned to develop major infrastructure projects such as the National Rail Network, the electrical systems whose demands are increasing by 25% annually, National Road Networks, dams and airfields. This has been recognized as a critical issue for Afghanistan by both donors and the government. While much has been done, the reality is that even more remains to be done. Given this, for at least the next 30-50 years, there will be a series of large infrastructure projects aimed at giving Afghanistan the sort of infrastructural framework enjoyed by its neighbors at a similar level of development.

NATIONAL/INTERNATIONAL RAILWAY PROJECTS:

The first section of what is intended to be a national network was completed when Mazar-e-Sharif was connected by rail to Hairatan and through it to the networks of central Asia and onto

⁶ Ministry of Mines and Petroleum, Islamic Republic of Afghanistan “mom.gov.af/en”
Afghanistan Investment Support Agency (AISA) “<http://investinafghanistan.af/about-aisa/>”

⁷ Afghanistan Investment Support Agency (AISA) “<http://investinafghanistan.af/about-aisa/>”

⁸ Afghanistan Investment Support Agency (AISA) “<http://investinafghanistan.af/about-aisa/>”

Europe. Construction work on a railroad connecting Afghanistan with neighboring Turkmenistan has also been launched. The railway line is estimated to cost USD 800 million, which is being provided by the Asian Development Bank (ADB).

Herat – Torghondi Port Railway Line (150 Km)

TAT Railway (645 Km)

Jalalabad – Torkham – Landi Kotal Railway (98 Km)

Chman – Kandahar Railway

Party Rarilway Road from China to Iran through Kyrgyzs Republic, Tajikistan and Afghanistan

Gorani (Iran) – Herat Railway Five

AFGHANISTAN- FOREIGN DIRECT INVESTEMENT:

Afghanistan FDI Overview

(Millions of dollars and percentage)

Foreign Direct Investment	2005-2007	2013	2014	2015	2016
FDI Inward Flow (million USD)	233	47	37	163	100
FDI Outward Flow (million USD)	-	1	-	1	-1
A percentage of Gross Fixed Capital Formation- Inward	7.7	-	1.0	4.5	2.8
FDI Stock (million USD)	1995	2013	2014	2015	2016
Inward	12	1062	1098	1261	1361
Outward	-	7	6	6	6
As a percentage of Gross Domestic Product- Inward	-	-	5.4	6.4	7.2
Number of Greenfield Investments	2005-2007	2013	2014	2015	2016
As Destination	67	-	-	10	-
As Source	2	-	-	37	-

Source: UNCTAD, World Investment Report 2017; <http://unctad.org/wir>⁹
Foreign direct investment position data are not available for Afghanistan.

(1) Chabahar and its road connectivity to Central Asia

⁹ UNCTAD, World Investment Report 2017; <http://unctad.org/wir>

From Chabahar port, the existing Iranian road network can link up to Zaranj in Afghanistan, about 883 km from the port. The Zaranj-Delaram road constructed by India in 2009 can give access to Afghanistan's Garland highway, setting up road access to four major Afghan cities -- Herat, Kandahar, Kabul and Mazar-e-Sharif. Mazar e Sharif is near to Uzbekistan

(2) Afghanistan will get a politically sustainable connectivity with India

The Chabahar-Zahedan-Zaranj corridor is a potential game-changer for regional connectivity, as it gives an alternative access for Afghanistan to India via the sea. This connectivity will enhance the development nature of economic engagement between the two countries.

(3) No need to depend on Pakistan

At present for the connectivity with sea Afghanistan need to use Pakistani ports, but due to political tensions and barriers Pakistan always creating tension between the Durand line. Chabahar has the potential to decrease The Afghanistan dependency on Pakistan. For the regional integration countries need to be engaged with each other but since the many years Afghanistan is become landlocked and cannot use other countries border.

As the West imposed ban on Iran has ended, there will be more expansion of Iran bound trade. Afghanistan has increased its crude purchase from Iran ever since the end of the ban. With reducing remittance attraction and reciprocal commitment with Arab countries, Iran may get a higher role in Afghanistan economic engagement. Hence, in future, there is higher scope and benefit for mutual trade between the two countries and the new port deal is very important as a trade facilitator.

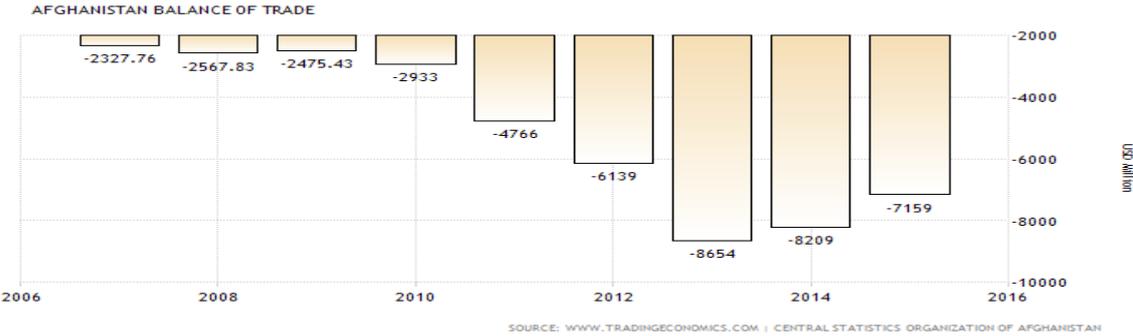
- **Establish an international trade system that measurably benefits and accelerates the efficient/productive development of Afghanistan's economy focusing on:**
 - **Proper transit system with Iran and India**
 - **Export Promotion**
 - **Regional and global integration and cooperation**
 - **Transit and trade facilitation via Chabahar**
- **Expected Results with a five-year perspective**
 - **An international trade system that benefits the development of the Afghan economy focusing on:**
 - **A national trade policy supporting the nascent Afghan productive sector**
 - **Export Promotion**
 - **Regional and global integration and cooperation**
 - **Transit and trade facilitation**

CONTEXTUAL ANALYSIS

INTERNATIONAL TRADE:

Due to vital linkages with the rest of the economy, the Afghanistan external accounts are a reflection of the current weak state of the entire economy and the lack of policies to effectively support the nascent private sector. The state of the economy is a heritage of the destruction and dislocations from the long period of social and military conflicts.

Afghanistan recorded a trade deficit of 7159 USD Million in 2015. Balance of Trade in Afghanistan averaged -4100.60 USD Million from 2003 until 2015, reaching an all time high of -1660.92 USD Million in 2005 and a record low of -8654.00 USD Million in 2013.



The World Bank recent report described about the potential of Afghan Economy they focused on the security and development and the challenges remain daunting, with poor security environment continuing to exert a binding constraint on confidence, investment, and growth. Economic growth reached only 0.8 percent in 2015. Adverse weather conditions reflected slow growth, which contributed to a decline in agricultural production of 5.7 percent in 2015. According to available data for the first half of 2016 indicate low levels of investment into 2016, while agricultural production has been disrupted by crop diseases and pests. Growth in 2016 is therefore expected to reach only 1.2 percent, despite progress with a number of initiatives, including Afghanistan’s accession to the World Trade Organization and the opening of the Chahbahar port in Iran, which has excellent potential as an alternative trade route. Economic growth is expected to gradually pick up over coming years, from 1.8 percent in 2017 to 3.6 percent in 2019. Stronger growth in out-years is predicated on improvements in security, political stability, reform progress, and continued high levels of aid.

Consumer prices declined steadily throughout 2015, rebounding in the first half of 2016. The rebound was driven by recovery in global energy and cereal prices and by the depreciation of the Afghani against major trading currencies. The exchange rate depreciated in the first two quarters of the year by 3.8 percent and 0.3 percent respectively, followed by an appreciation of about 2 percent in the third quarter. Foreign exchange reserves declined throughout most of 2015, before increasing in the first half of 2016 to US\$7.4 billion (or around 9 months of imports). This increase was largely due to the decline in imports, resulting from weakening demand.

The fiscal situation remains stable. Revenue collection performance was strong in 2015, with domestic revenues reaching 10.2 percent of GDP. This strong performance has continued into 2016, with domestic revenues collected in the first 8 months of 2016 standing at 30 percent higher than the value for the same period in the previous year. This increase is largely the result of improvements in tax administration and the introduction and implementation of new policy

measures in the second and third quarters of 2015. Public spending in the first half of 2016 was 5 percent higher than in the previous year. While security costs and civilian recurrent needs increased the operating budget spending by around 9 percent in the first half of 2016, development budget expenditures have fallen due to poorer budget execution performance across most of Government institutions. A small deficit of 1.3 percent of GDP was recorded in 2015, with a balanced budget expected in 2016.

The import expansion reflects the rapid pace of reconstruction and a nascent private sector unable to compete effectively with imports. This weakness is aggravated by the very active and aggressive export promotion and protectionist policies of the neighbouring countries. The massive influx of foreign currency into the country stabilizes the Afghan currency and leads to an overvaluation of the Afghani. At the same time, it attracts massive imports as the donor funds pouring into the country push up the demand for goods and services, which cannot be produced in Afghanistan at this stage of development. Therefore, the traded balance is negative.

Export-oriented firms and trade-related activities are dependent on the quality of their environment and the incentives it generates. For export to thrive, it is necessary to establish an institutional framework that fosters a private sector enabling environment. This environment must contribute to increasing productivity and to reducing operating costs as well as transaction costs. Fundamental ingredients that should be present in the economy are efficient mechanisms to enforce contractual obligations, as well as quality regulation, registration and licensing procedures. When present, they help promote private investment in general and export-oriented activities in particular. This enabling context is particularly important for foreign investors. At this point, Afghanistan is just beginning to create such an environment.

PREFERENTIAL TRADE AGREEMENTS:

Afghanistan has bilateral Trade and Transit Agreements with neighbouring countries. Its objective is to promote its trade with neighbouring countries as it is a land locked country, so much dependent on them. Afghanistan focussing to move from Bilateral to Regional because we can link with many countries and can Act as a 'land bridging link' between these countries.

THE THREE-NATION TRANSPORT AND TRANSIT CORRIDOR PACT BETWEEN:

This pact between India, Iran, and Afghanistan was signed in Tehran on May 23, 2016. The pact will open an alternative trade route for Kabul, bypassing Pakistan. It will potentially open up an alternative route to world markets for Afghanistan. For India and Iran, it offers a strategic advantage as Pakistan has restricted Afghanistan's trade with India by not fulfilling the terms of a previous agreement.

Importance of Chabahar: Alternative to Pakistani ports:

There are many problems Afghanistan faces with Pakistan due to political conflicts at times causing erratic closing of borders and creating obstacles to our trade. Chabahar provides an alternative and reduces our dependence on Karachi Port.

TRANSPORT CORRIDORS:

The entry point mentioned below are some of the official border crossing points that have regular traffic throughout the year. As per regular practice customs and immigration rules apply. Customs department is checking all the relevant papers for cargo that is cleared for entry but only passengers or trucks having valid visa and license can pass the border otherwise transshipment at border crossing needs to be arranged.

THE TOP THREE ROUTES:

1. A North-South Corridor connecting Tajikistan, Uzbekistan, and Turkmenistan with Pakistani ports Karachi, Port Qasim and Gawadar and continuing via Wagah, Pakistan, in the direction of India and South Asia.
2. An East-West Corridor connecting Tajikistan, Uzbekistan and Turkmenistan with the Iranian port of Bandar Abbas.
3. The third viable trade route for Afghanistan is through Iran. Chabahar is less crowded, and strategically well positioned for Afghan imports and exports. Iran and India are building a highway and a railroad system that leads from the port into Afghanistan. The Iranian trade route is very cost effective and short distanced, as compared to that of Pakistan. In addition, this route is less dangerous and very reliable.

These corridors carry significant potential for an increase in trade between energy rich Central Asia and energy deficient South Asia but with high export capacities of manufactured goods. A recent study by the ADB suggests that the development of these two corridors could result in a major shift in trade transit routing from and to Central Asia, with the potential for a very positive impact on both employment and production in the region.

Chabahar port will give Afghanistan access of sea for export oil and import reserves. Oil and gas is important for hydrocarbon starved country like India. It will also give Afghanistan strategic edge over other neighbouring countries. Furthermore, it gives access to the International North South corridor which additionally helps in reaching the Central Asian Republics. The strategic location on the Gulf of Oman is of huge political significance.¹⁰

EXPORT PROMOTION:

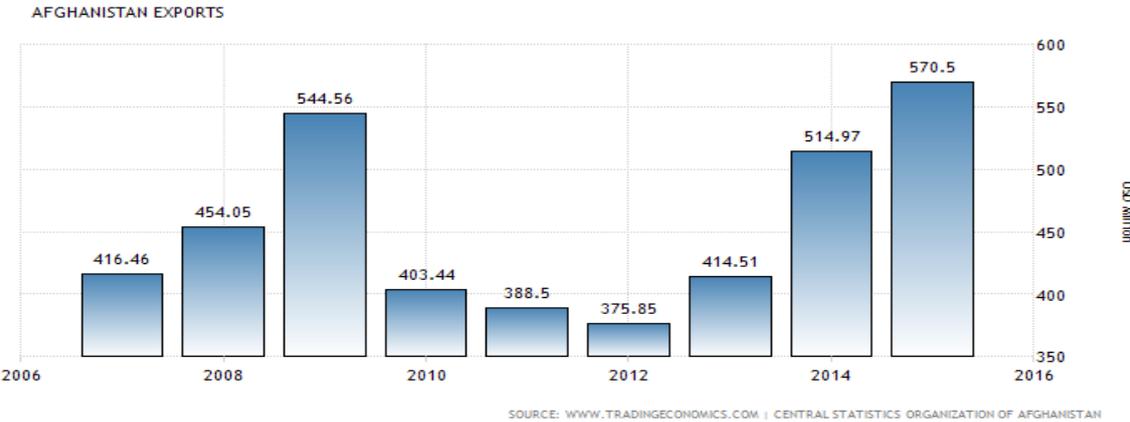
AFGHANISTAN EXPORTS 2000-2017

Afghanistan is well placed to expand its exports especially to the region, but also to international markets. Processed agricultural goods have traditionally a good reputation in the regional

¹⁰ Afghanistan National Development Strategy ANDS "<http://www.ands.gov.af/>"
Worldbank "<http://www.worldbank.org/en/country/afghanistan>"
Asian Development Bank "www.adb.org/afghanistan/main.asp"
BEA "<http://bea.gov/international/factsheet/factsheet.cfm?Area=600>"

market and the perceived quality of Afghan products is superior to most other countries. The range of these products is limited, but the potential growth is high.

Exports in Afghanistan increased to 570.50 USD Million in 2015 from 514.97 USD Million in 2014. Exports in Afghanistan averaged 336.75 USD Million from 2000 until 2015, reaching an all time high of 570.50 USD Million in 2015 and a record low of 69.10 USD Million 2002.



The barriers to trade in the region are high. There are also preferential tariff agreements, especially with India, but the tariffs are still very high. During the regional conference in India 2006 trading partners acknowledge that more can be done. MoCI will strive to reach out to better agreements. Most developed countries have granted preferential treatment to the country (everything but arms/EU and US). To take maximum advantage of these agreements, Afghanistan must undertake systematic trade analysis to identify and exploit the market opportunities provided for Afghanistan’s exports.

Problems exists in the country itself. Exporting requires a lot of licences, certificates, taxes or fees and inspections. A lot of potential exporters either prefer not to export under these circumstances or export their goods through Pakistan. The MoCI will in the short term eliminate most of these impediments and streamline the procedures to lower the cost for the exporter significantly. This will contribute to reducing transaction costs and enhancing Afghanistan export competitiveness. It has already established an organization under the Ministry, the Export Promotion Agency of Afghanistan (EPAA) which will support potential exporters with the administrative procedures not only in Afghanistan, but also in the importing country. EPAA will also provide market linkages to importers and provide training and advice to potential exporters. Through EPAA the Ministry will also provide the services of internationally certified laboratories, especially in the area phytosanitary services.

The MoCI will try to support initiatives to provide better banking services in Afghanistan, especially the important aspect of the letters of credit has to be taken care of.

In cooperation with related ministries and the private sector, the MoCI will continue to work to reduce the high trade logistic costs by enhancing policy and programs for trade facilitation in several areas. In particular, a high priority is being given to the streamlining of border crossing formalities, elimination of illegal checkpoints, the provision of adequate physical infrastructure, and the high incidence of truck trans-shipment at the Afghan borders.¹¹

¹¹ Export Promotion Agency of Afghanistan, EPAA [“www.epaa.org.af”](http://www.epaa.org.af)
Worldbank [“http://www.worldbank.org/en/country/afghanistan”](http://www.worldbank.org/en/country/afghanistan)

REGIONAL AND GLOBAL INTEGRATION AND COOPERATION:

To capitalize on its strategic location as a land-bridge in the Central and South Asia region, integrating Afghanistan's markets with the global and particularly regional economies is of critical importance to the achievement of the national economic goals. Linkages with global and regional markets will not only promote the competitiveness of domestic industries but also add to the attractiveness of Afghanistan for investors.

To become a full member of the global economic community, Afghanistan must complete requirements for WTO accession and create trade agreements with large international markets. This will send strong signals to international investors and traders regarding the stability and parameters of the trade regime. Afghanistan has actively participated in regional economic initiatives including the Economic Cooperation Organization (ECO) as well as bilateral negotiations with neighboring countries including Iran, India, Pakistan, Tajikistan and Uzbekistan. Further opportunities for regional integration are participation in the South Asia Free Trade Area (SAFTA) and the Central Asian Regional Economic Cooperation (CAREC) program.

TRANSIT AND TRADE FACILITATION:

Afghanistan's trade in transit situation is characterized by three essential problems:

1. High logistics costs
2. Ineffective transit agreements
3. Inadequate financial infrastructure.

High Logistics Costs: Delays, cumbersome procedures, and lack of facilities at border posts substantially impact transport costs which seriously undermine the competitiveness of Afghan exports, increase the cost of imports, and discourage the development of transit traffic through Afghanistan. Costs of trade do not consist simply of transport charges, but of many further direct and indirect costs generally termed "trade logistics costs," and include factors such as delays, charges, and other challenges to reliable delivery.

In a well-functioning market economy with highly developed transport and distribution networks, measurable logistic costs are usually less than 10 percent of the sale price of goods. In Afghanistan, with inadequately developed trade logistic systems, costs are much higher. Indications are that for Afghanistan, trade logistics costs can be up to twenty-five percent of the value of goods shipped, the costs even exceeding 50 percent of the sale price for raw materials or basic commodities such as grain or cement. Without efficient and effective trade logistics services on routes to and through Afghanistan, the costs these transactions will remain high.

Among the most serious bottlenecks to the movement of goods entering, leaving, or in transit through Afghanistan, the Ministry of Commerce and Industries has identified:

- a) poorly designed, poorly managed official border port stations
- b) long border waiting times only relieved with unofficial payments
- c) truck-to-truck border transshipment increasing handling costs, transit times, risk of cargo loss/damage

- d) no external transit role for afghan truckers (except Peshawar route) as trucking entirely by transit countries
- e) foreign truckers restricted from operating in Afghan
- f) high-rates charged by trucking cartel
- g) vehicle standards below international levels
- h) check-posts, arbitrary delays, and extensive unofficial and discriminatory charges.

Ineffective Transit Agreements: Afghanistan has signed a number of bilateral or multilateral transit agreements with countries of the region, Pakistan, Iran, Uzbekistan, Tajikistan, Turkey and India, to facilitate the movement of goods and commercial vehicles through neighboring countries. However, the transit system from/to Afghanistan is not operational due to:

- i) complex and uncoordinated cross border customs practices and documentation;
- j) no coordination between working days and working hours of the adjacent border ports;
- k) time consuming border controls;
- l) numerous and costly transit fees for crossing borders which do not reflect actual services;
- m) lack of standards for admittance of vehicles across borders (vehicle inspection, issuance of certificates);
- n) lack of third party insurance schemes;
- o) lack of bond/guarantee system to ensure the payment of customs duties;
- p) visa problems for drivers of another country;
- q) unofficial charges.¹²

Inadequate Financial Infrastructure: Institutionalized or formal banking and insurance systems have been profoundly dislocated by conflicts. This resulted in disruption of domestic and international payments systems and virtual cessation of all lending activities in the country. Afghanistan still lacks of a fully functioning banking and insurance system to support international trade. Afghan traders have little possibility to finance their trade transactions or to get effective local insurance coverage for the transport of goods. Consequently, truckers increase their rates to cover potential loss/damage liabilities or goods are shipped at the owner's risk. This contributes to high trade transactions costs.

Similarly, there is no system providing bonds or guarantees to cover customs duties on goods in transit not cleared by the customs. Without transit bonds and customs guarantees, Afghanistan will be restricted to rudimentary transit systems such as convoys or duty deposits.

PROGRESS AND REQUIREMENTS:

INTERNATIONAL TRADE:

One of traditional sectors to pay special attention to is horticulture, especially to those products in the perennial category. This sector is a good candidate for recovering competitiveness and the lost export market share it once had. During the late 1970s nuts as well as fresh and dried fruits accounted for 41.0% of the country's total merchandise exports. In particular, dried fruits

¹² Ministry of Commerce and Industries, Islamic Republic of Afghanistan "<http://moci.gov.af/en>"
Ministry of Transport, Islamic Republic of Afghanistan

which require significant value-added through processing and packaging accounted for 18.0% of total exports. Because the production of semi-processed products such as this is labor-intensive, it could be a source of employment creation. Moreover, these products generate high income per hectare and could compete with the seasonal poppy crops. Due to the semi-processed requirement of many products in this category, horticulture could also be a base for building agro-industry. Development of this activity would require cooperation among MOCI, EPAA, and the Ministry of Agriculture.

Having received observer status, Afghanistan is following the WTO accession process. The process will require focus as well as coordination among ministries and with the private sector. Afghanistan Embassy in Geneva and UNCTAD comments on the completed Memorandum of Foreign Trade Regime (MoFTR) were incorporated then the MoFTR was distributed to relevant ministries before it is submitted to the Cabinet and President for approval. The MoCI will implement a strategy and timetable for accession as well as a plan to take advantage of the WTO capacity building resources and opportunities.

In addition, Afghanistan is currently eligible for preferential import duties under the European Union's (EU) "Everything but Arms" Initiative (EBA), the United States' Generalized System of Preferences (GSP) program as well as LDC preferences granted by Canada and Japan. Also, the Government of Afghanistan has recently concluded a "Trade and Investment Framework" (TIFA) agreement that could provide additional strengthening for trading relationships.

In capitalizing on Afghanistan's position as a land bridge between Central and South Asia, the facilitation of international trade via transit routes is of critical importance. Afghanistan has existing transit agreements or understandings with Pakistan, India, Iran and Uzbekistan and is a signatory of the TIR convention. The Ministry is also an active participant in the Central and South Asia Transport and Trade Forum's (CSATTF) Corridor Development Plan and is investigating possibilities for expanded participation through involvement in the wider CAREC initiative.

ANALYSIS OF KEY STRATEGIC ELEMENTS AND PROCESSES IN PAST PROGRAMMING THAT CONTRIBUTED TO SUCCESS:

This analysis is based on lessons learned, international and national best practices, and case studies. It will provide the background for MoCI strategic programming.

TRANSIT AND TRADE FACILITATION:

In the past few years, the Ministry of Commerce and Industries has pursued transit and trade facilitation initiatives including the following:

1. Recommendations for new physical border facilities design and coordinated border control procedures based on international best practices. A paper "*Facilitating Cross-border Trade*"

defines the organization and coordination of agency activities to facilitate movement of legitimate people and goods, while maintaining secure borders;

2. Simplification and standardization of documents and procedures based on international best practices/standards. The MoCI has suppressed documents that it used to issue (Transit Form to Afghanistan, “*Ilm-ul- khabar*”, Transit Permit through Afghanistan “*Ejaza namah ye transety*”). These were replaced by the ASYCUDA T1 form issued and processed by the Customs offices at the borders.

3. Establishment of the “Afghan High Trade Facilitation Committee”, called AFPRO, with the objective to address trade facilitation issues by bringing together all stakeholders in the area of transport and transit including government, private finance and insurance, and the private sector. Presidential Decree (no 3565 dated 26/10/1384 (16/01/2006) sanctioned the creation of AFPRO.

4. Reactivation of the TIR (International Road Transport) Convention (1975) ratified by Afghanistan in 1980. Afghanistan, suspended in 1982 by the International Road Union (IRU), the organization which manages the TIR Convention, was reinstated in 2006. The Ministry of Commerce and Industry, designated as the National Competent Authority by Presidential Decision, is currently monitoring the process by which the Afghan Chamber of Commerce and Industry will be authorized to issue the TIR carnet on behalf of Afghanistan.

5. Draft of a new transit agreement with Pakistan, the Afghan Pakistan Transit Agreement (APTA), to replace the Afghan Transit Trade Agreement (ATTA) dating back to 1965, to take into account changes which occurred in the economic and transport environment surrounding the transit of goods to/from Afghanistan through Pakistan.

6. Development of a well-qualified national freight forwarders industry instrumental in promoting Afghan trade by (i) establishing an International Freight Forwarder licensing system issued once predetermined criteria are fulfilled (financial position, integrity, technical abilities, proven expertise), and (ii) producing the Afghan Basic Standards training in freight forwarding under FIATA (International Federation of Freight Forwarders Association).

7. Support of the Afghanistan Association of Freight Forwarding and Transit Companies (AFCO), recognised in 2005 as the National Association of Afghanistan within FIATA, by assisting in drafting a “Code of Conduct for Members of the Association” and of “Standards Trading conditions for freight forwarders”

8. Assessment of the role of the Ministry of Commerce and Industries at the borders. Presently operating border port facilities (Hayrathan, Torghundi, Sheer Kan Bandar), the MoCI is considering promoting a Border Ports Public Private Partnership scheme under which the Ministry will provide land and existing buildings while the private sector finances the other facilities and provides experienced management.

OVERVIEW OF APTTA:

The Afghan Pakistan Transit and Trade Agreement (APTTA) came into force between the Governments of Afghanistan and Pakistan on June 12, 2011. It allows Afghan trucks to carry

Afghan products to the huge markets of India and China as well as the rest of the world through the seaports of Karachi, Port Qasim and Gwadar. It replaces the 1965 Agreement, Afghanistan Transit Trade Agreement or ATTA.

Once fully implemented, APTTA will make it easier and cheaper for Afghan goods to get to foreign markets.¹³

APTTA Benefits:

- Afghanistan is a landlocked country. APTTA encourages the export of Afghan goods to foreign markets including access to some of the world's largest markets, India with 1.1 billion people and China at 1.2 billion.
- APTTA will increase Afghan exports and reduce delays at borders. It makes Afghan products more competitive, attractive, and affordable abroad.
- APTTA modernizes business and customs practices in both countries by simplifying and standardizing procedures at the borders.
- Pakistan will be able to access the markets of Central Asia and Iran.
- APTTA will stimulate employment and business inside Pakistan as service and logistical businesses support Afghan trucks.
- Essentially, APTTA lowers transit costs.

Freedom of Transit:

APTTA guarantees freedom of transit between Afghanistan and Pakistan.

- This means that Afghan trucks can transit into Pakistan on pre-settled routes along approved corridors.
- Afghans can choose their type of vehicle but they must stay on the specified routes and exit Pakistan within the specified time.
- There is no preferential treatment for national vehicles.
- The rates for ports and rail are the same as those applicable to national. For instance, this means that the cost of rail cargo must be the same for cargo of nationals of either country.

Commercial Presence:

Afghan freight forwarders and transport operators are allowed to establish businesses in Pakistan to support trade and transit activities.

Mutual Recognition of Documents

There is a mutual recognition of the driving licenses and vehicle documents issued by the national authorities of each country. There is also a mutual recognition of inspection certificates.

¹³ <https://medium.com/@raxaabbas/story-of-afghanistan-pakistan-transit-trade-agreement-aptta-371155eecf54>

Enquiry Points:

Each country will set up enquiry points to respond to questions and concerns from nationals from both countries.

Allowable Charges

There will be no duty or taxes on goods in transit. However, some charges are allowable and include: fees for weighing, scanning, sealing tolls for bridges, roads, tunnels and parking. All charges must be reasonable and non-discriminatory.

Prohibitions

No measure taken under the Agreement can risk harming or destroying public morals, human, animal, and plant life; national treasures, security of territory, and mutually agreed interests.

Oversight and Dispute Settlement

The Afghanistan Pakistan Transit Trade Coordination Authority (APTTCA) oversees the Agreement. APTTCA includes members of Government and the private sector from both countries. It meets twice a year or more often if requested.

The Agreement also provides for dispute settlement panels to examine specific cases under dispute. Each panel includes a representative from both countries and a neutral third country. It examines evidence of the case under dispute and makes a decision. These decisions are considered final.

APTTA Promotes Regional Development

APTTA will encourage economic growth for both countries by building stronger commercial relationships between Afghanistan and Pakistan. It will strengthen economic ties and ensure smooth and efficient movement of goods through both countries and across the region.

The agreement makes the South Asian Free Trade Agreement (SAFTA) easier and cheaper to implement. SAFTA will lower tariffs for Afghan goods across the region. APTTA will also contribute to greater regional security as Afghanistan and Pakistan work together for mutual economic growth and prosperity.

But in July 2010, a revised MoU was reached between Pakistan and Afghanistan for the Afghan Pak Transit Trade Agreement (APTTA), which was observed by United States Secretary Hillary Clinton. Both countries also signed MoU for the construction of railway tracks to connect Afghanistan with Pakistan.

In October 2010, Pakistan Chamber of Commerce and Afghanistan Chamber of Commerce signed this landmark agreement APTTA. Number of representatives around the world including foreign ambassadors attended the ceremony. The APTTA allows Afghan trucks to drive inside Pakistan to Wagah border and to ports cities of Pakistan. The APTTA is intended to improve

trade between the both countries and for this both countries have formed the joint Chamber of Commerce for the trade expansion to solve the problems trader face.

Since new agreement there have been times when due to insurgencies the borders between two countries are sometimes closed to trade as Terrorism is one of the major issue and still the intelligence and diplomatic relations between the two countries are in halt.

Currently Pakistan has decided to build barred border with Afghanistan and send back Afghan refugees back to Afghanistan to counter and end terrorism in Pakistan itself.¹⁴

ANALYSIS OF CONSTRAINTS, RESTRAINTS AND ASSUMPTIONS:

Transit: Even when the road infrastructure is completed by 2018, Afghanistan will have little transit potential until the security issue is resolved. Security remains a major problem on most Afghan routes. Until these routes are perceived to be secure, it is difficult to envisage the use of Afghan routes. Consequently, improving security for both persons and property throughout the country is a prerequisite for the revival of Afghanistan and the improvement of the transit system. Better security is needed to: (i) encourage foreign truckers to make direct deliveries and thus reduce transshipment; (ii) reduce costs on some routes where trucks operate under convoy conditions; and (iii) develop multimodal transport with shipping line containers transported up to inland container depots within Afghanistan with container deposits lower than presently.

It must be noted also that the level of confidence concerning Afghan traders and transport operators is very low due to historic perception that many shippers in Afghanistan are involved in smuggling or trafficking in illegal drugs. Hence reforms measure to improve the effectiveness and efficiency of procedures in detecting and deterring illegal trade should go hand to hand with a better understanding of the barriers to commercial activity that Afghanistan's traders must overcome, and also of the multiple strategies they have developed in order to do so.¹⁵ In Afghanistan, the line between legal and illegal activities is often blurred and overlapping. Many activities viewed as illegal by the state may be a regular part of their routine trading activities, barring which they would have a very difficult time conducting their affairs. Since informal trading networks consisting of Afghan traders have played a crucial role in the region for generations, they may provide a learning opportunity on how Afghans fashion their commercial relations globally and respond to political, economic, social and physical changes that affect their businesses. Afghan traders time and again have found creative solutions on a global scale to the problems of transporting goods across multiple boundaries and integrating into new environments. They are able to develop contingency plans for threats that arise to their business.

A better understanding of these informal and illegal processes raises the possibility of integrating them into the formal regulatory systems, either through formalization of existing processes or otherwise. It may be impossible to completely prevent such businesses and traders from circumventing formal arrangements. However, when formalized structures are responsive to the activities of users, a greater likelihood exists of attenuating informal practices.

¹⁴ <https://medium.com/@raxaabbas/story-of-afghanistan-pakistan-transit-trade-agreement-aptta-371155eecf54>

¹⁵ Ministry of Commerce and Industries, Islamic Republic of Afghanistan "<http://moci.gov.af/en>"

OVERALL CHABAHAR FOR ACHIEVING RESULTS

GOAL: *Establish a proper transit system that assists with the development of the Afghan economy focusing on:*

- *Overall Impact Analysis*
- *Export Promotion*
- *Transit and trade facilitation*
- *Regional and global integration and cooperation*

Overall Impact Analysis:

An effective transit and trade system will benefit the Afghan economy and the Afghan people. Chabahar must be geared at the strengthening of the productive sector in Afghanistan first. Afghan producers need more outlets for Afghan goods and services nationally and internationally leading to more employment opportunity.

Via Chabahar Afghan traders could expand their trade to the International Markets and get in touch with more opportunities.

Regional and global integration will provide additional markets for Afghan goods and a wider range of goods and services in the country. The former will lead to more employment that will reduce the level of poverty and the latter to opportunities for better living conditions.

Expanded exporting will ensure more opportunity for private sector growth. Reviving the “Afghanistan label” in key areas will attract additional investment and interest in the country. Both can expand employment and provide opportunities for gender empowerment. To ensure a cohesive plan for the implementation of trade strategies, a national strategy must be articulated and followed. This ensures trade strategies have the widest impact on national goals.

TRADE:

Sub-goal: Elaboration and Implementation of Chabahar Project

Strategies:

- Foreign Direct Investment
- Trade talks and capacity building in Afghanistan
- Improving the availability, quantity, and quality of trade statistics and trade information
- Mitigating the negative effects of Afghanistan’s landlocked geographical position by achieving agreements with neighbouring countries on transit of exports and other trade facilitation issues.

Sub-goal: Export Promotion

Strategies:

- Build up an efficient instrument for export promotion
- Elaborate an “exporters roadmap” aiming at streamlining the processes for export

- Bring back the export volumes and value added of goods presently exported through Chabahar
- Maximize the benefit of export related donor projects
- Establish the branding “made in Afghanistan”
- Provide services to Afghan exporters, such as laboratories, low cost transport and information

Sub-goal: Regional and Global Integration

Strategies:

- Pursuing WTO accession
- Exploiting the potential of preferential market access agreements
- Exploiting the potential of multilateral/global and regional economic agreements
- Encouraging active participation of the private sector in multi-lateral/regional cooperation
- Accession to other International conventions and treaties
- Export Promotion

Sub-goal: Transit & Trade Facilitation:

Strategies:

- Implementing trade/transport facilitation measures to boost exports and foreign exchange earnings
- Simplifying export and import procedures and regulations
 - *Standardization* and integration of information and requirements, and use of Information and Communication technologies (ICT) so as to exchange this information efficiently,
 - *Simplification* of administrative and commercial formalities, procedures and documents;
- Reducing the logistical cost of Afghanistan’s international trade
 - *Harmonization* of applicable laws and regulations;
 - *Reduction* of transit fees and associated charges;
 - *Transparency*, which implies making information on border requirements and procedures available and easily accessible to all interested parties;
 - *Adoption of the seven international conventions* promoted by ESCAP which provide the framework for facilitating international transport
- Improving transport and border infrastructure

Strategy category: Establishing Afghanistan as the center of an efficient regional transit network

- Increasing the competitiveness of the transit routes through Afghanistan
- Implementing and updating transit agreements
- Encouraging a system of dry ports and logistics hubs throughout Afghanistan
 - Improving operations and efficiency of the international transit corridors crossing Afghanistan to increase their competitiveness;
 - Enhancing transit infrastructure (logistics facilities and inland container depots) particularly at border crossing points;

- Fostering trade related value added activities and revenue generating transit services
- Strengthening coordination with and between neighboring countries by updating and implementing transit agreements.¹⁶

CONCLUSIONS AND RECOMMENDATIONS:

Chabahar Importance

Afghanistan has traditionally been denied access to international markets. India and Iran are nation's looking to trade with Afghanistan, but Afghanistan's transit is blocked by Pakistan and the land access is severely under several sanctions. Pakistan is trying to block the Indian access to Afghanistan by passing Pakistan. Chabahar is one of the trade alternative of Afghanistan to have sea trade with their neighborhood countries. Chabahar Port is not only important to Afghanistan & India. It has significance to Iran as well. Chabahar 's close proximity to Baluchistan, Pakistan could be another reason However, Pakistan has largely refused to provide land transit to Indian goods bound for Afghanistan through its territory. Under the Afghanistan-Pakistan Trade and Transit Agreement, Afghan trucks can carry transit cargo to Pakistani ports and to Wagah, but the same facility is not extended to Indian Goods Denying transit access to India is part of the Pakistan strategy.

¹⁶ Afghanistan National Development Strategy ANDS “<http://www.ands.gov.af/>”

As Pakistan has refused to provide land transit to India, development of a port in Iran can serve as an alternative route to land-locked Afghanistan and Central Asia. Although Afghanistan is a land-locked country, it is a potential regional hub. Afghanistan's foreign trade is dependent upon the main transit routes which cross Pakistan. Like any other land-locked country, Afghanistan faces high transport costs and long delivery delays. At the same time, due to its strategic geographic position, Afghanistan has the potential to become a "land-linked the Chabahar port implication for Afghanistan is too much important. Zaranj-Herat, Kandahar, Kabul and Mazar-e-Sharif, and to Central Asian economies.

Afghanistan can play a substantial role in these rising regional prospects. Recently, Afghanistan has made major advances in terms of security and Political reforms. It is looking to make similar efforts on the economic front. In addition to the two large energy projects — the Turkmenistan-Afghanistan Pakistan-India Natural Gas Pipeline (TAPI) Project and the Central Asia South Asia Electricity Transmission and Trade Project (CASA—1000) — Afghanistan has also invested in transport infrastructure projects like the development of Chabahar port.

**(Action: Ministry of Commerce / Ministry of Mines and Petroleum Ministry of
Transport EPAA)
Export Promotion / Investment and Trade with India**

India is among the largest bilateral donor nations to Afghanistan and has contributed about US\$ 2.5 billion towards the reconstruction of the country since 2001. It is keen to further increase its presence in Afghanistan in the future and to enhance bilateral trade, which at present stands at roughly US\$ 700 million. Chabahar is well-suited to facilitate this process: goods brought at the port can be easily transported to the Afghan border through a series of roads constructed by the Iran government from where they are distributed to different parts of Afghanistan via the Zaranj-Delaram highway. India is also currently negotiating a transit agreement with Iran according to which Indian goods meant for Central Asia and Afghanistan could get preferential treatment and tariff reductions at Chabahar. Similarly, India needs to export the iron ore extracted from the Hajigak mines in Central Afghanistan, for which it needs a convenient and accessible port. As mentioned above, India already plans to facilitate this by developing a rail link from Hajigak to Chabahar. Moreover, India is keen to use its presence in Afghanistan as a base to expand its presence further north, and consequently Chabahar is seen as a potential gateway to the CARs. India's plans to extend the Zaranj-Delaram highway to connect with Uzbekistan should be seen in this context. Similarly, Iranian and Uzbek plans to develop a rail link connecting Chabahar with Termze via Zahedan, Mashhad, Herat and Mazar-e-Sharif will also serve India's purpose of gaining access to Central Asia, The Chabahar Port serves two additional Indian objectives vis-à-vis Afghanistan. First, it serves the broader objective of integrating Afghanistan in a regional trade and transit network. New Delhi believes that increased regional cooperation will encourage all stakeholders to view Afghanistan as an avenue of cooperation rather than competition, which in turn could promote stability in Afghanistan. India has played a leading role in promoting regional integration. This is evident from its push for Afghanistan's membership into South Asian Association for Regional Cooperation, support for the New Silk Road Initiative and funding of the requisite physical infrastructure. India's efforts at promoting Afghanistan's integration with the rest of the region are also motivated by its desire to reduce Pakistan's influence in the country. Afghanistan has historically been dependent on Pakistani territory for access to maritime trade from the Arabian Sea, giving Islamabad monopoly on most trade with Kabul and influence over much of Afghanistan's economic and political life. The Chabahar Port, in that sense, reduces some of

Afghanistan's dependence on Pakistan as it provides an alternative access to sea. This has been acknowledged by the Afghan Ministry of Commerce and Trade as well, which claimed that trade and transit issues with Pakistan are hampering the overall health of the Afghan economy because of which Chabahar provides the best 29 alternatives for entering the Indian and Iranian markets. Indeed, Iran and Afghanistan have already signed a pact, which allows Afghanistan to use the port for shipment and trade. Moreover, Afghan traders are also provided storage facilities for free and are further given a 30 percent discount in 30 custom tariffs and allocation of 50 acres of land for Afghan investment in the area. Fuel transit to 31 provinces of Afghanistan also began in June 2013 and efforts are underway to further develop this capacity. Afghanistan has even signaled its intentions of wanting to invest in Chabahar.

**(Action: Ministry of Commerce, EPAA and DAB)
Facilitates for Afghan trades in Chabahar**

Many times Iranian officials said that they will provide facilities to Afghan traders can get a 25% discount on investment at Chabahar Port, besides taking advantage of free land and other facilities. Afghan traders can export fruits to other countries from the seaport in southeastern Iran, Dedication of 50 acres of land for Afghan investment in Chabahar port, access to cooling storage for free, providing water and road transportation facilities for Afghan investors, decrease in the cost of Afghan trade materials' transportation through Iranian seas and exemption of custom duties on some Afghan trade materials are the facilities considered for encouragement of Afghan investors to invest in free Chabahar area.

But still there are many problems for Afghan traders

- Working family and business visa problem
- High Cost of Lands
- Duration of land contracts
- Long Investment procedures for Afghan Traders
- Trade facilities
- Cold storage
- Air-Cargo facilities
- Transportations cost
- Procurement procedure
- Lengthy Export/ Import Documentations
- Banking facilities
- Airport

**(Action: Ministry of Commerce, Ministry of Foreign Affairs, Ministry of Transport and
Export Promotion Agency of Afghanistan (EPAA)
Export Procedures:**

Customs procedures for exports are simple but obtaining permission for export from different ministries can be a harrowing experience working to simplify procedures and do away with the procedures like pasting sticker on invoice, which is purchased for 15af. The Government must seriously consider if there is any justification for assigning a role to Ministry of Commerce in controlling the procedures for exports considering that a specialized agency under the ministry, EPAA, created to promote, exports is already performing that function.

**(Action: Ministry of Commerce, Afghanistan Customs Department,)
Integrated approach to export facilitation**

The world has witnessed a drive to globalization of economy in the post-world war period, first in the western countries and in the last thirty years in Asian countries, Export processing goods need strict control measures for which the Customs are well suited. However, the Government will need to make special efforts in developing the zones, creating schemes for export credit, facilitating transportation of goods, and for such tasks the suitable agency would be the EPAA. It is therefore advised that a special export zone be developed and it should be run by jointly by the EPAA and Afghanistan Customs Department.

SECTION TWO

IRAN PERSPECTIVE

BAHRAM AMIRAHMADIAN

**Port and Maritime Directorate General
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CHABAHAR PORT

INTRODUCTION:

Having two important commercial ports, Shahid Beheshti and Shahid Kalantari, in the eastern shore of Chabahar Gulf located in the province of Sistan and Balochistan beside the warm water of the Oman Sea and the Indian Ocean, and being adjacent to two countries of Pakistan and Afghanistan, and having access to the international waters, and Commonwealth of Independent States (CIS) countries, and also being adjacent to Free Trade-Industrial Zone, Chabahar port performs the role.

In 1983, the executive operations of each port of Shahid Beheshti and Shahid Kalantari begun and 4 berths became operational. Chabahar port called Tees (Teez) port in the past was considered as one of the most important ports of Iran and Middle East in the Makran Sea from the Achaemenids era. In that era, cargo was brought from Eastern Asia and India to the Tees port and were sent to different regions such as the Middle East, Middle Asia, and the Caucasus. Tees was an important port such that Moghdasi, a historian during the fourth century A.H., spoke about its business boom.

Chabahar port with an area of 11 km² is located at the same latitude with the Miami port in the America's Florida peninsula and the weather conditions of both ports are similar. Its average annual maximum temperature is 34°C and its average minimum temperature is 10°C. Chabahar weather is very pleasant in summer due to blowing Summer Monsoon Winds of the Indian Ocean. Due to this reason, it is one of the coolest ports of the Middle East in the summer.

Nowadays, Chabahar port has been considered as the forehead of the eastern development route and the gate of the international North-South Corridor in order to fulfill the general policies and goals of the regime of the Islamic Republic of Iran. The Supreme Leader emphasizes the development plan of the Chabahar port as the only oceanic port of the country. In this regard, the development plan of the Chabahar port was accomplished in 5 phases in 2007. Iran hopes that the first phase of the port development plan would begin operations soon.



CHABAHAR PORT INTRODUCTION:

Chabahar Port is located in southeastern Iran in the Oman Sea (**Longitude:** 60° 36' 46" E, **Latitude:** 25° 18' 1" N). It is the only oceanic port of Iran and the entrance gate to the “International North-South Corridor” and “Eastern Development Route of the Country”.

It has more than 300 km of marine border, with minimum transit distances to Afghanistan, Pakistan, and Central Asia, and is the most economical port in commercial trade for these countries. It also plays an important role in the International North-South Transit Corridor (INSTC).

More profit by investing in Chabahar

INVESTMENT OPPORTUNITIES IN CHABAHAR PORT:

- Construction of warehouse and silo
- Construction of export terminal
- Construction of tanks for storage of raw edible oil
- Goods production & re-export
- Partnership in port development plan implementation
- Ship fuel bunkering

SHAHID BEHESHTI PORT SPECIFICATIONS:

Total area: 254 hectares

Open storage area: 16 hectares

Warehouses : 30000 square meters



Berth Specifications

Port name	Berth No.	Length (m)	Width (m)	Depth (m)	Capacity (ton)	Year of Construction	Type
Shahid Beheshti	5	265	53	-11*	80,000	2004	Multipurpose
Shahid Beheshti	5	150	15	-9	25000	1983	Multipurpose
Shahid Beheshti	3	150	15	-8	25000	1983	Multipurpose
Shahid Beheshti	2	150	15	-9	25000	1983	Oil
Shahid Beheshti	1	150	35	-8	25000	1983	General
Shahid Kalantari	5	235	53	-11.5	45000	1997	Multipurpose
Shahid Kalantari	4	45	30	-5.5	2500	1983	General Cargo
Shahid Kalantari	3	45	30	-5.02	2500	1983	General Cargo
Shahid Kalantari	2	45	30	-5.02	2500	1983	General Cargo
Shahid Kalantari	1	45	30	-2	2500	1983	General Cargo

*By implementation of port development plan, it will be -14 meters CD.

SHAHID KALANTARI PORT SPECIFICATIONS:

Total area: 30 hectares

Open storage area: 35000 square meters

Warehouses: 3000 square meters

Container yard area: 40000 square meters



Shahid Kalantari (scale: meter)

Length	Width	Average Dept	Channel Entrance – Channel Bend	Channel Bend - Jetty
2700	100	12	1800	900

MAX LOW WATER : 0.27 m MAX HIGH WATER : 2.95 m

Port Equipments

Equipments	type	unit	capacity
Shore mobile crane	Liebherr-Fantuzzi	3	36-80 tons
Yard mobile crane	Liebherr	2	60 tons
Yard mobile crane	Tadano	1	60 tons
Yard-road mobile crane	Kato	1	35 tons
Yard-road mobile crane	PPM	4	25 tons
Reach stacker	Fantuzzi	3	45 tons
Top lift truck	Kalmar-Caterpillar	2	35 tons

Marine Services facilities

Name of vessel	Engine power (HP)	Usage
Yadegar (tugboat)	4400	Towage
Sooreh (tugboat)	3200	Towage
Ramezan (tugboat)	2374	Towage
Khazar (tugboat)	1632	Towage
Naji 5 (boat)	1600	Search and rescue
Hadi	1576	Pilot boat
Boat	200	Patrol
Boat	400	Patrol
Sardab (barge)	-	Supply (bunker and fresh water)

ONGOING INVESTMENT PROJECTS:

*-Reverse-Osmosis System for Water purification - Construction of sulfur warehouse & storage tanks for **Sulfuric acid** - Construction of tanks for fuel transit*

Advantages and Potentials

- 30% discount for all items of port dues and duties to container vessels
- Minimum of 30% discount for all terminal handling charges (THC) compared with other southern ports of the country
- Offering stepped discounts for container THC of shipping lines
- 75% discount for storage of the imported containers and 87.5% for storage of the exported containers
- 30% discount for the costs of transfer and storage of non-container cargos compared with other ports of the country
- Holder of the license of Integrated Management System (IMS) including the standards such as: ISO 9001-2008, ISO 14001-2004, OHSAS 18001-2007
- The only oceanic port of the country (The gateway of the Persian Gulf)
- Distance to airport is 40 km.
- The gateway of the international North-South Corridor and the eastern development route of the country
- No waiting time for the vessels compared with other ports of the country
- Chabahar transit route to Milak (Chabahar-Nikshahr-Iranshahr-Zahedan)

IMPORTANT ACCOMPLISHED PROJECTS:

Order	Title of project	Duration of implementation (moth)
1	Reconstruction of the berths of the Shahid Kalantari port	37
2	Reconstruction of the northern gate of the Shahid Beheshti port	4
3	Construction of the gate and the area of the Shahid Kalantari port	Area: under construction Gate: 20 months

IMPORTANT ONGOING PROJECTS:

Order	Title of project	Infrastructure Area (m ²)	Duration of implementation (moth)
1	Construction of the coastal wall of the Shahid Beheshti port	2500	24
2	Constructing and equipping the operational building of the Shahid Beheshti port	4000	30

FUTURE PORT PROJECTS:

Order	Name of project
1	Construction of infrastructures of the development plan installations including water, power, the sewer
2	Studying the phase 2 for reserved lands preparation of the Shahid Beheshti port and performing the necessary actions
3	Construction of marine traffic control tower
4	Studying and checking the port lands development though joining nearby lands and anticipation of dry ports
5	Establishment of control management system of the project and GIS in the port
6	Implementation of strategic determination project and investment priorities for Chabahar port
7	Studying and organizing the eastern gate and eastern building of the port
8	Supplying electronic energy of the development plan to the amount of 16 MW for the first phase of the development
9	Construction and organization of the eastern gate of the Shahid Beheshti port
10	Construction of infrastructures of the development plan installations including water, power, the sewer, and so on.
11	Preparation of port support lands
12	Reconstruction and organization of the eastern gate of the port, installation, and related facilities

network from the beginning point of Sarakhs-Mashhad in 1996 (1375 SH¹⁸). Upon the establishment of this network, Iran was expected to turn into the transportation and transit route of five land-enclosed countries in Central Asia to international waters and develop transit of goods through the territory of the Islamic Republic of Iran. However, this network did not yield a significant development due to the structure of customs and cumbersome rules, particularly in Central Asian countries. Despite the significant growth of foreign trade of regional countries since the onset of their independence, the growth rate of transits from Iran has not increased accordingly.

Iran's communication with five Central Asian countries is only established through Turkmenistan (the only Central Asian republic coterminous with Iran) whose closed system and unique political-economic characteristics have delayed the expansion of ties with Central Asia. In a bid to find a substitute to this structure, which may later hinder the transit of goods through this route, a Memorandum of Understanding (MoU) was signed in 2004 (1383 SH) between Iran and Afghanistan and the three republics of Uzbekistan, Tajikistan, and Turkmenistan (these three being coterminous with Afghanistan from the south). This MoU confirmed the plan of establishing the communication gateway of Iran with Central Asia through the route of Afghanistan to Central Asian countries, particularly to Tajikistan which Iran utterly favors. Sadly, no measures have been taken in this regard since then and the implementation of the plan appears to be abandoned. One of the main reasons of neglecting this innovative plan is the ongoing insecurity exerted by Taliban extremist groups.

A total population of 9.4 million (the 2011 (1390 SH) census) or 12.5% of the country's population inhabit the eastern region of the country, namely in the provinces of Sistan and Baluchestan, South Khorasan, Razavi Khorasan, and North Khorasan. These provinces are neighbors with Pakistan (Sistan and Baluchestan Province) and Afghanistan (the provinces of Khorasan) from the south to the north, respectively. In terms of economic development, the east axis, along which these four provinces are located, is considered as a deprived region except for some parts of the provinces of Khorasan-e-Razavi and Khorasan Shomali (Northern Khorasan).

As a landlocked country, Afghanistan has to resort to its neighboring countries. Pakistan (in the south) and Iran (in the west), which are in the vicinity of Afghanistan, provide the country's access to international waters. The capital of Afghanistan (Kabul) is located in the southeast of this country and is closer to the capital of Pakistan than to the capital of Iran, and Pakistan provides its access to international ports; however, due to the existing insecurity in those routes and the political tensions between the two countries, Afghanistan prefers to access international waters through Iran. Consequently, Afghanistan's foreign trade communications with other non-regional countries are carried out through the Chabahar Port, and Iran has assigned Afghanistan the privilege to a segment of this port. Moreover, with USD 2 billion and USD 600 million in 2015 (1394 H), Afghanistan performs a significant amount of foreign trade with Iran.

Regional countries, including India, play a key role in the restoration of Afghanistan. Upon signing the strategic treaty between India and Afghanistan, India needs to access Afghanistan through the shortest and safest route among the network of roads. Since Pakistan lies between these two countries with which India does not have a close relation, it needs to cooperate with Iran. Iran, along with India and Russia, was the initiator of the north-south corridor (which, in contrary to its determined goals, has not been able to have noticeable activity) and India seeks investment in Chabahar Port within the above-mentioned proposal or independently, in order

¹⁸ Solar Hijri

to establish economic-commercial ties with Afghanistan. Iran, India, and Afghanistan have placed great emphasis on mutual cooperation in this axis in the joint commissions of economic cooperation of Iran with Afghanistan as well as with India, and also in the joint meetings on the development of Chabahar Port and mutual cooperation.

The connection of Chabahar-Zahedan-Mashhad to Central Asia is somehow considered as linking Chabahar to the Silk Road. This corridor is one of the shortest communication routes of the Silk Road with the Sea of Oman and the Indian Ocean. Contrary to the traditional route through Karakum which was generally impassable and particularly inaccessible in winters and connected the Silk Road to today's Pakistan through the Sea of Oman, the present road is passable and secure and can form the southern branch of the Silk Road, which the president of China innovatively termed "One Road, One Belt". Introduction of such a capability in the Chabahar Free Zone can serve efficiently in attracting international investments.

THE GEOGRAPHICAL POSITION OF CHABAHAH PORT:

Chabahar Port is located in the east coast of the Gulf of Chabahar in the domain of Sistan and Baluchestan province. Due to its excellent position in the east of the Strait of Hormuz and the Sea of Oman, this port is situated on the main shipping lines to Africa, Asia, and Europe and is known as the shortest communication and transit route of Central Asian countries and Afghanistan to the markets of the Persian Gulf, East Africa, and other regions of the world. Chabahar Port consists of two ports – Shahid Beheshti and Shahid Kalantari, where Shahid Beheshti port receives ships with a capacity of 70,000 tons and Shahid Kalantari port can take ships with a maximum capacity of 45,000 tons. Since Shahid Beheshti port has the capacity of physical expansion and enjoys a vast backup territory, the Integral Expansion Plan of Chabahar Port is concentrated on its development.

Having two major trade ports, namely the ports of Shahid Beheshti and Shahid Kalantari, Chabahar Port on the east coast of the Gulf of Chabahar in Sistan and Baluchestan Province, which stretches along the warm waters of the Sea of Oman and the Indian Ocean and lies in the vicinity of Pakistan and Afghanistan, plays its role while enjoying its access to international waters and CIS countries and its location in the Free Trade-Industrial Zone.

Executive operations of each of the ports of Shahid Beheshti and Shahid Kalantari were launched in 1983 upon the completion of fourteen wharves. Formerly known as Tis, Chabahar Port used to be one of the oldest ports of Iran and the Middle East in the Makran Sea since the Achaemenid era. Shipments from East Asia and India would be brought to Tis from which they would be sent to various regions including the Middle East, Central Asia, and the Caucasus. Iran's efforts to expand the Chabahar Port and the southeast of the country dates back to over two decades ago when Hashemi Rafsanjani's administration (named the Construction Government) allotted this region as a free trade zone in the early 1370s H (roughly 1990s).

CHABAHAH AGREEMENT:

This term came when authorities from Iran, India, and Afghanistan decided to come together to work on an inter-regional initiative to make a corridor to facilitate the transit and transportation activities between India-Afghanistan-Central Asia via Iran by renovating,

improving, and empowering existing roads, and the construction of a new railroad network in Iran.

India as a strategic partner of Afghanistan has some responsibilities to help and invest in its partner (Afghanistan) to bring security and stability to Afghanistan as well as the region itself. To meet these aims, it was necessary to work within the framework of an international agreement.

IRAN, INDIA, AFGHANISTAN TO SIGN JOINT AGREEMENT:

On March 25, 2014, a senior Afghan official announced that Tehran, Kabul, and New Delhi would sign a joint agreement which would pave the way for Afghanistan to reach out to India through the Chabahar port in Southern Iran. The Afghan Foreign Ministry Spokesman Shakib Mostaghni said in his press conference that the conclusion of the tripartite agreement would be very beneficial. He also said that his country is trying to gain access to the Black Sea through Turkmenistan, Azerbaijan, and Georgia.

Iran's Chabahar Port, located 170 kilometers west of Pakistan's Gwadar port, holds immense strategic and economic significance for India. In February 2014, Indian Ambassador to Tehran Shri D.P. Srivastava has underlined the fruitfulness of the Chabahar port for India, which is to set up a direct shipping route to the Iranian port in a bid to decrease freight prices and delivery time. During a meeting between Iranian Minister of Road and Urban Development, Abbas Akhondi, and an Indian delegation of experts in Tehran, the envoy said an Indian private company is ready to establish a direct shipping link between Chabahar and Indian ports in order to bypass Dubai where Indian container ships have to cross to reach Iran. The Indian diplomat said that the capital investment initially envisaged for the construction of a container terminal in Chabahar standing at USD 147 million.

Srivastava described Chabahar as a strategic port facilitating access to Central Asian states. Also last month, Indian External Affairs Minister Salman Khurshid reiterated the vital importance of Iran's port city of Chabahar for his country, saying the port is the most cost-effective route for New Delhi to reach the Central Asian markets. India's interest in the Iranian port is not only to get a direct access to Central Asia but also to facilitate the import of minerals from Afghanistan, Khurshid said in the Afghan city of Kandahar. Late in November, media reports said that India's state-run Jawaharlal Nehru Port Trust is sending a team to Iran to accelerate work on Chabahar Port with a view to facilitate New Delhi's access to Afghanistan and Central Asia.¹⁹

ALL IRAN TRANSIT ROUTES OPEN TO AFGHANISTAN:

On September 7, 2016, the Minister of Roads and Urban Development, Abbas Akhondi, in the city of Torbat Heidariyeh, in Khorasan Razavi province, said that all Iranian transit routes have to be open to Afghanistan. Speaking during a ceremony to inaugurate the third phase of the Khaf-Herat railway at the Iranian border with Afghanistan, Akhondi said that Afghanistan

¹⁹ - Official: Iran, India, Afghanistan to Ink Joint Agreement, Tue Mar 25, 2014 5:42
<http://english.farsnews.com/newstext.aspx?nn=13930105000145>

should be given a chance to be linked to Central Asia, India, the West, and the Caspian Sea through Iran. “We are ready to provide our neighboring country with access to all air, land, and sea routes without any limitation,” Akhoundi said. He further mentioned that Iran has been standing by Afghanistan during tough times and is hosting two million Afghan refugees. He recalled signing the Chabahar agreement by the presidents of Iran and Afghanistan a few months ago in Iran, and noted that the Chabahar Port is now capable of transferring 2.5 million tons of goods and the figure is expected to reach eight million tons by the end of the year.²⁰

HEART OF ASIA CONFERENCE URGES IMPLEMENTATION OF CHABAHAR AGREEMENT:

On December 10, 2016, representatives of over 30 countries, including Iran, in a statement at the end of the 6th Heart of Asia Conference, Istanbul Process, called for implementation of communicative projects such as the development of the Chabahar Port. The statement reads that economic development contributes to the establishment of stability and security in Afghanistan. Therefore, they urged the speedy implementation of multilateral economic and communicative projects such as the Chabahar development project and Turkmenistan-Afghanistan-Tajikistan railway project. The undertakings will help promote regional cooperation in Central and southern Asia. Afghanistan's access to water to enter global markets is very significant. Hence, member states of the Heart of Asia recognize the major trilateral agreement among Iran, Afghanistan, and India on Chabahar. Following the implementation of the deal, Afghanistan will get an access to regional, Asian and Global markets easily. Participating countries also expressed their concern over the worsening security situation in Afghanistan and continuation of violence in the country by terrorist groups such as Daesh, Taliban, Al-Qaeda, etc.²¹

BILL ON ESTABLISHING INTERNATIONAL TRANSPORT CORRIDOR SENT TO PARLIAMENT:

After almost a year, the government of Iran decided to be more active to regulate the trilateral agreement to the Iranian parliament. A bill on the agreement to establish an international transport corridor by the Iranian, Afghan, and Indian governments was sent to the parliament on Tuesday, June 12, 2017. Vice President for Parliamentary Affairs, Hosseinali Amiri, in a letter to the parliament's presiding board wrote that the agreement comprises a prelude and 15 articles in the form of a bill and it has been sent to parliament to undergo legal procedures. “The bill on agreement for establishment of international transport corridor among Iran, India and Afghanistan (known as Chabahar agreement) is hereby submitted for procedures,” Amiri added.

Several foreign countries are willing to make huge investments in economic and infrastructure projects of the Chabahar Port following the July 14 agreement between Tehran and six world powers, but Iran is scrutinizing the offers to select the most qualified ones as its future

²⁰ - Minister: All Iran transit routes open to Afghanistan, 07/09/2016
<http://www.irna.ir/en/News/82222165/>

²¹ - Heart of Asia Conference urges soon implementation, 04/12/2016
New Delhi, Dec 4, IRNA of Chabahar Agreement.
Heart of Asia members are Iran, Afghanistan, Pakistan, China, Russia, India, Azerbaijan Republic, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Turkey, Saudi Arabia and UAE.
<http://www.irna.ir/en/News/82332418/>

partners. In May 2016, Tehran, New Delhi, and Afghanistan signed an epoch-making agreement in Tehran to establish a transit and transportation corridor. The agreement known as the Chabahar Trilateral Agreement was signed by the three countries' officials in the presence of Iranian President Hassan Rouhani, his Afghan counterpart Mohammad Ashraf Ghani, and Indian Prime Minister Narendra Modi. The trilateral Chabahar agreement will considerably increase making use of the Chabahar port that will connect India to Central Asia through Afghanistan and will provide Afghanistan's access to India via the sea.²²

IRAN SUPPORTS ECONOMIC COOPERATION WITH BOOSTING AFGHANISTAN'S STABILITY:

Iran always announced that the stability of its eastern neighbor is one of the most important priorities of its national security. On December 20, 2016, Ambassador and Permanent Representative of the Islamic Republic of Iran to the United Nations, Gholamali Khoshroo, commented on the situation in Afghanistan and highlighted the role of international economic cooperation in boosting peace and security in the country. He made a statement before the Security Council of the United Nations; the relevant section to Chabahar is as below:

“Strengthening our regional cooperation with Afghanistan is a priority and a major pathway to consolidate peace and economic cooperation in the region. The trilateral transit agreement between Iran, India, and Afghanistan on the development of the port of Chabahar, is one important step in that direction. It makes it possible for Afghanistan to have access to world markets through open seas, making the development of Afghanistan's vast and rich mineral resources economically attractive. We invite interested actors from the region and beyond to consider participating in the development and expansion of Chabahar. The Khaf-Herat Railway project is another key connectivity project that connects Afghanistan to the international railway networks through Iran. We fully share the conclusion by Secretary General in his report that the regional infrastructure initiatives, including transport links, between Afghanistan with Iran and Turkmenistan, serve as an important pathway towards prosperity and stability in Afghanistan.”²³

CHABAHAR PORT IS HIGHLY IMPORTANT FOR IRAN, INDIA, AND AFGHANISTAN:

Not only Iran, also Afghanistan and India, as the signatories of the Chabahar agreement urge the implementation of this important issue. An Indian expert of world affairs believes that development of the Iranian port of Chabahar is highly important for Iran, India, and Afghanistan and it will remain as a valuable joint venture among the nations. A senior advisor at one of India's premier think tanks, Observer Research Foundation (ORF), Sajeew Ahluwalia said: “The Chabahar port is an illustration of the common interests between Iran, Afghanistan, and

²² - Bill on establishing int'l transport corridor sent to parliament, Tehran, June 13, 2017, IRNA <http://www.irna.ir/en/News/82564205/>

²³ - Iran's UN envoy stresses role of int'l economic cooperation in boosting Afghanistan stability. New York, Dec 20, 2016, IRNA - <http://www.irna.ir/en/News/82353418/>

India. Today it can also be viewed as a counter to brinkmanship which Pakistan uses liberally because of its location as the gateway to Afghanistan for India. But, even if these issues get resolved, Chabahar will have value as a joint venture between the three countries which have resolved to make it the premier link for Afghanistan to the sea. Once the Port is ready and the link road to Afghanistan is operational traffic of all types will grow.”

Rejecting any possibility of India using the Chabahar Port to send troops to Afghanistan if the situation requires, the seasoned analyst of world affairs said: “It is difficult to conjecture that India will consider sending troops to Afghanistan to assist the Afghan army. This is not a traditional role that the Indian Army has played. India knows that any permanent resolution of the crisis in Kabul can only come about through an internal agreement to end the fighting and violence and turn to development.”²⁴

CHABAHAR PORT IN IRAN HOLDS THE KEY TO BOOST INDO-AFGHAN TRADE TIES:

India’s trade with Afghanistan could take a quantum leap from the current USD 600 million if the Chabahar port in Iran is commissioned soon. The port will shorten the distance for transporting goods between the three countries, said Afghanistan’s Ambassador to India, Shaida Mohammad Abdali. In an exclusive interview with *Business Line*, Abdali said that with his country being re-built after three decades of war, it has several business opportunities in store for Indian companies. The port holds the key to higher trade between the two countries, he added. Incidentally, a draft trilateral transitory agreement has already been formulated and is awaiting final clearance. The port will provide a new route between Central Asia and South Asia, and help Indian companies reach newer markets in Central Asia, he said.

STRATEGIC LOCATION:

The port is considered strategically important for India’s exports to landlocked Afghanistan. All three countries have an agreement on preferential treatment and low tariff for goods moved through Chabahar. Experts see India’s move to support Chabahar as a strategy to counter China’s recent takeover of the Gwadar port in Pakistan, 172 km away from Chabahar.²⁵ Abdali said that according to a study, emerging opportunities in Afghanistan and the new connectivity offered by Chabahar could see trade between the two countries jump from USD 600 million to USD 5 billion over three years. India has already committed about USD 100 million for port development infrastructure, he said. While Afghanistan offers a number of opportunities in constructing highways, power plants, and railways, Abdali said mineral resources such as iron ore, gold, precious stones, coal, and gas need to be tapped.

INDIAN COMPANIES:

²⁴- Indian expert: Chabahar Port is highly important for Iran, India, and Afghanistan, 19/09/2016
<http://www.irna.ir/en/News/82236375/>

²⁵ -Distance To Gwadar From Chabahar is: 107 miles / 172.2 km / 92.98 nautical miles
<http://www.prokerala.com/travel/distance/from-chabahar/to-gwadar/>

More than 100 Indian companies operate in Afghanistan and the number could grow significantly, given the many opportunities coming up in Afghanistan, he added.²⁶ (This article was published on June 26, 2014.)

SIGNING THE CHABAHAR PORT TRILATERAL AGREEMENT:

At last, the historical event of the official signing of the Chabahar trilateral agreement was done in Tehran. In this ceremony, India signed a historic three-nation deal on Monday, May 23, 2016 to develop the strategic port of Chabahar in Iran and build a transport-and-trade corridor through Afghanistan that could halve the time and cost of doing business with Central Asia and Europe.

Developing the Chabahar port was seen as crucial for India because it would not only allow New Delhi to bypass Pakistan and access global markets but also counter China's expanding influence in the Indian Ocean region. But the project's land route through Afghanistan remains a security headache. "We want to link with the world. (The) agreement ... can alter the course of history of the region," said Indian Prime Minister Narendra Modi after the deal was signed in the presence of Afghan president Ashraf Ghani and Iranian President Hassan Rouhani. "Studies show that... the corridor could bring down cost, time of cargo trade to Europe by about 50%."

Separately, Modi – the first Indian prime minister to visit Iran in 15 years – and Rouhani signed several deals, including on sharing intelligence to combat terrorism and increasing cultural and technology contact. India has watched with unease Chinese funding for a strategic port in Gwadar, Pakistan, which New Delhi believes will give Beijing access to the Indian Ocean region. In response, New Delhi began negotiations with Tehran more than a decade ago to develop the Chabahar port to counter the Chinese moves in what is seen as part of India's sphere of influence.

Monday's bilateral deal with Tehran will see India spend about USD 500 million (INR 3,400 crores) to develop the port in southeastern Iran's Sistan-Baluchestan province as a regional trade hub. This will allow it to open up an alternative land-sea route for trade with Afghanistan. "The bilateral agreement to develop the Chabahar port and related infrastructure, and availability of about USD 500 million from India is an important milestone," said Modi. Rouhani said, "Chabahar can become a very big symbol of co-operation between Iran and India." The PM also quoted a couplet from legendary poet Ghalib, "Once we make up our mind, the distance between Kaashi and Kaashan is only half a step."

As part of a separate trilateral deal, India, Afghanistan, and Iran agreed to establish a land transit-and-trade corridor. The three nations have engaged in protracted negotiations since 2003 but the lifting of sanctions on Tehran in January has boosted prospects of the port's development. From Chabahar port, the existing Iranian road network can link up to Zaranj in Afghanistan. This road can then connect to the 218 km Zaranj-Delaram road – constructed by India in 2009 at a cost of INR 680 crore – and finally to Afghanistan's Garland highway. This will give India road access to four major cities in Afghanistan: Herat, Kandahar, Kabul, and Mazar-e-Sharif, but Kabul has already warned New Delhi to be ready for possible attacks by Pakistan-backed elements to delay the project. Future plans include an International North-South Transport Corridor through Iran to Russia and Europe.

²⁶- Rahul Wadke. Chabahar port in Iran holds key to boost Indo-Afghan trade ties. <http://www.thehindubusinessline.com/economy/chabahar-port-in-iran-holds-key-to-boost-indoafghan-trade-ties/article6151385.ece>

India will invest USD 500 million (INR 1,000 crore) in Phase 1, including USD 150 million line of credit from Exim Bank to Iran's Maritime and Ports Organisation for making jetties and berths at Chabahar. State-owned construction firm Ircon signed an agreement to lay a rail line from Chabahar port to Zahedan and Nalco signed a deal to look at the possibility of setting up a 0.5 million ton aluminium smelter at the Chabahar free-trade zone, provided Iran gives cheap natural gas.

India Ports Global, a recently formed port project investment arm of the shipping ministry and a joint venture between the Jawaharlal Nehru Port Trust and the Kandla port, will invest USD 85 million in developing two container berths with a length of 640 metres and three multi-cargo berths. Indian refiners Essar Oil and MRPL cleared USD 1.2 billion of a USD 6.4 billion in dues owed to Iran for crude oil imports and agreed to pay 1.5% interest on the remainder as a goodwill gesture. This is the first payment to Iran by India since the lifting of Western sanctions against the Persian Gulf nation earlier this year. After the end of bilateral talks between Modi and Rouhani, top sources in the government said, "India is keen to settle the entire oil dues, keeping in mind the emerging economic relationship with Iran."²⁷

CHABAHAR PORT AND DEEPER ENERGY TIES ON AGENDA AS MODI RENEWS IRAN LINK:

Following lifting of sanctions against Iran in January, India has been eyeing deeper energy ties and has already lined up USD 20 billion as investment in oil and gas as well as petrochemical and fertiliser projects there. So the centrepiece of prime minister Narendra Modi's two-day visit will be the contract for commissioning the first phase of the strategic Chabahar port. Chabahar in Southeast Iran will help India skip Pakistan and open up a route to landlocked Afghanistan with which New Delhi has developed close security ties and economic interests. Besides signing the commercial contract for Chabahar Phase 1, Modi will witness signing of a trilateral agreement on transport and transit corridor among India, Afghanistan, and Iran. Sources said business talks will also feature securing rights for ONGC Videsh to develop the offshore Farzad-B gas field, in Iran.

Bilateral talks began May 23, 2016 morning as Modi meets President Hassan Rouhani. On the agenda are regional connectivity, infrastructure, and energy as well as terrorism and extremism in the region. Discussions will also feature the pending payment of USD 6.4 billion that Indian refiners Essar Oil and MRPL owe Iran for past oil dues.²⁸

AFGHANISTAN AND CHABAHAR:

Afghanistan is Chabahar's most important trading partner. Afghanistan is also the most important trade and economic partner of the Chabahar Free Zone. Hamed Ali-Mobaraki,

²⁷ - India, Iran and Afghanistan sign Chabahar port agreement, May 24, 2016
<http://www.hindustantimes.com/india/india-iran-afghanistan-sign-chabahar-port-agreement/story-2EytbKZeo6zeCIpR8WSuAO.html>

²⁸ - Chabahar port and deeper energy ties on agenda as Modi renews Iran link, May 23, 2016
<http://www.hindustantimes.com/business/chabahar-port-and-deeper-energy-ties-on-agenda-as-modi-renews-iran-link/story-fOEIJIJEZdA9z1QIhkiXIL.html>

director of the Chabahar Free Zone, at the meeting with the Minister of Economy of the Islamic Republic of Afghanistan, referring to the registration and activity of 150 Afghan investment companies in the region, added: “The presence and residence of 500 Afghan citizens in Chabahar indicate their serious determination to invest and to pursue economic and business in the area.” Referring to the fact that the Chabahar Free Zone could play an important role in the development of trade and transit of goods to neighboring countries, he said that the region has good conditions for transit and trade due to its strategic location and connection to the Indian Ocean.

Managing director of the Chabahar Free Zone Organization, referring to the cultural and social ties between Iran and Afghanistan, said that the Iranian government has taken a lot of investment, especially investment in developing the infrastructure of ports, railways, licensing of international airports, and the establishment of steel, petrochemical, and mines factories. He said activating the east-west corridor from the government’s plans to carry out transit traffic for the plan of the Chabahar Free Zone to Milak road to Zabul border.

According to Mubaraki, foreign investors can take ownership of land at an affordable price for 50 years for commercial and economic activity and be exempt for 20 years from any tax. The managing director of Chabahar Free Zone Organization emphasized: "Economic and commercial activists in Afghanistan should be more open to investment opportunities in this city and export the various types of goods, agricultural products, and minerals to other parts of the world through this port.”

"The country is one of the richest countries in the fields of iron, chromite, coal, precious stones, and oil," said the minister of economy of Afghanistan, declaring that the country's goods and minerals are exported through the strategic and oceanic port of Chabahar to various parts of the world. Abdul Sattar Murad emphasized: "Chabahar has a profound effect on Afghanistan's economic development and can play a central role in the development of this country-bound land." He said that Afghan businessmen are keen on working in the Chabahar port and are focusing on investing more in the area. He hopes that the Chabahar port is a good partner for business in the near future, and somehow it will save the country from economic recession, pointing out that Afghan officials are emphasizing the development of economic, commercial, and political relations with Iran. High security, good interaction between the Iranian authorities, and the infrastructure of the Chabahar port have provided suitable conditions for transit, export, and import of goods by Afghan economic activists and investors.²⁹

INDIA AND CHABAHAR:

When the leaders of India, Iran, and Afghanistan gathered in Tehran in the spring for a ceremony marking India’s development of a strategic Iranian port, they recited Persian poetry and said their partnership would “alter the course of history.” Months after the ceremony in May and pledges by India to inject USD 500 million into the project, the much-heralded port of Chabahar remains a sleepy outpost – as well as a shadow of the Chinese-built port of Gwadar, 100 kilometers (62 miles) to the east across Iran’s border with Pakistan. “What you’re seeing is the problem with many of the Indian commitments abroad,” said Sameer Patil, an analyst at Gateway House, a research organization in Mumbai. “Once a prime minister makes that

²⁹ - Afghanistan is the most important trade and economic partner of Chabahar Free Zone. Zahedan, Ettelaat newspaper Correspondent: Tuesday, May 10, 2016, No. 26435(in Persian language).

commitment, the parties find it difficult to move the process forward. The Indian bureaucracy takes its sweet time.”

Chabahar was supposed to be an easy win – India would bankroll a hub to rival the China-Pakistan partnership at Gwadar, Iran would get a major ocean port outside the Strait of Hormuz and spur growth in its poor eastern region, and Afghanistan would gain road and rail links to a deep-water port that could boost its war-ravaged economy. But more than a decade on, the strategic asset is languishing, even as China sinks USD 45 billion into the China Pakistan Economic Corridor that winds down to Gwadar.

For Prime Minister Narendra Modi, Chabahar could aid his goals of integrating South Asia’s economies and boosting India’s stature in the region. However, the slow pace of its development has drawn criticism. Western Indian ports of Kandla, Mundra, and Mumbai could help India’s farmers get cheaper access to fertilizers and other commodities from Central Asia and beyond.

Chabahar may even benefit China. The country, which deepened trade ties with Iran after the U.S. and European Union tightened sanctions in 2012, could cash in on the gradual re-opening of the Islamic Republic’s \$400 billion economy. Beijing is also expanding its footprint elsewhere in the Persian Gulf. A unit of China’s biggest shipping group, Cosco Shipping Co., signed a deal on September 28, 2016 to build and operate a container terminal in the United Arab Emirates.

For Iranians, the new investment cannot come soon enough. Sanctions, which were eased in January, exacerbated poverty in Sistan-Baluchestan, Iran’s poorest province, where security forces are fighting insurgents and face a threat from Islamic State militants across the border in Pakistan and Afghanistan. The project will also lessen Iran’s vulnerability to possible disruptions in the Strait of Hormuz, said Abdolrahim Kordi, Deputy Head of Economic Affairs at the Chabahar Free Trade Zone. If the Strait, a shipping bottleneck at the mouth of the Gulf, were to be blocked due to regional hostilities, Chabahar would be “the only point that can connect Iran to open seas,” he said.³⁰

INDIA- CHABAHAR DEVELOPMENT:

The government said that it has committed USD 500 million to Chabahar which lies on the Gulf of Oman, aiming to join an increasingly important transport corridor to the resource-rich regional countries. When development is complete, Chabahar will link with the International North-South Transportation Corridor (INSTC) which currently stretches from the Iranian port of Bandar Abbas in the Persian Gulf to Russia, Eurasia, and Europe.

Indian Foreign Minister Sushma Swaraj said on Monday that the work on the project has gathered momentum despite misgivings about delay in New Delhi’s role. “Iran for centuries has been the hub for connectivity links for countries of Asia and Europe, including India. Connectivity is one of the key strengths of Iran and President Rouhani is keen to boost all connectivity initiatives through the country,” she was quoted as saying.

³⁰ - Golnar Motevalli; Iain Marlow. India Slow to Expand Iran Port as China Races Ahead at Rival Hub, October 5, 2016
<https://www.bloomberg.com/news/articles/2016-10-04/india-and-iran-slow-to-develop-port-as-china-builds-rival-hub>

Her reassuring words come in the midst of disparaging reports, claiming that India's biggest overseas infrastructure push was being derailed in the face of trade complexities with Iran. Just some 72 km west of China-developed Gwadar port in Pakistan's restive province of Baluchistan, Chabahar, on the mouth of the Straits of Hormuz in the Persian Gulf, provides India a land-sea access route into Afghanistan and Central Asia through the Bandar Abbas-Caspian Sea axis. Several foreign countries are willing to make huge investments in economic and infrastructure projects of the Chabahar Port following the July 14, 2014 agreement between Tehran and six world powers but Iran is scrutinizing the offers to select the most qualified ones as its future partners.³¹

FOREIGN COUNTRIES INTERESTED TO INVEST IN CHABAHAR:

There are some countries which are interested in considering the Chabahar port as a progressive project to invest in. Among those countries that are responsible for promoting stability in Afghanistan, Japan is very active. In regards to this issue, the Senior Japanese Foreign Ministry official in New Delhi, in September 8, 2016 announced that his country is interested in investment and development of the Chabahar port. "Japan is interested in helping India for investment in Chabahar and developing the port," Masayoki Taga said during a visit to New Delhi on January 5, 2017.

In the meantime, an Indian expert of strategic affairs, Barhamla Chalani, said that Japan's assistance to India in the Chabahar port will be an effective step in confronting China's presence in Pakistan. He said that Japan is interested in manufacturing an industrial complex in the Chabahar port, adding, "Chabahar has more capacities as compared to Pakistan's Gwadar port." Chalani reiterated that Chabahar port can become the region's big shipping center in the future.

INDIA, CHINA, JAPAN VYING FOR INVESTMENT IN CHABAHAR:

Although the first Indian vessel, which set out from the country's Kandla Port, has already berthed at Iran's Chabahar, Indians have not worked fast enough to develop the Iranian oceanic port. China, which is now focused on developing Pakistan's Gwadar Port, also has an eye on Chabahar and Iran's presence in Beijing's "One Belt, One Road" initiative. Japan is another serious actor openly interested in taking part in the development of Chabahar. The question is which one of these three countries will be of priority to Iran for cooperation in the development of Chabahar and the country's eastern rail routes.

An op-ed published by the US-based think-tank Eurasia Review provided a summary; below is the full text:

One year after Indian Prime Minister Narendra Modi visited Iran and signed a "historic" deal for the development of Chabahar, he paid a visit to Gujarat State, saying that Iran and India would soon be connected through a marine route from Kandla to Chabahar.

In fact, the development of Chabahar and Iran's rail routes from Chabahar to the northeastern city of Mashhad must be seen as a package, all of whose components must advance in parallel in order for Iran to be able to take advantage of this special opportunity.

³¹- India- Chabahar Development on Track, TEHRAN (FNA)- The Indian government announced that it has on its agenda the development of the Iranian port of Chabahar as part of its ambitious bid to access Central Asia and Afghanistan.

<http://en.farsnews.com/print.aspx?nn=13960320001816>

Following a recent trip to Iran by Chinese President Xi Jinping, officials have been talking about the establishment of new free zones and industrial parks through Chinese capital and technology, including in Iran's Jask Port, and funding feasible projects by China's EXIM bank. While Chabahar is the best option for India to get access to regional markets in Afghanistan, Central Asia, Russia, Caucasus, and Europe, China has already got access to the Indian Ocean through Gwadar.

The Japanese have also shown great interest in taking part in the development of Chabahar quite recently. Therefore, Iran is now more at ease for choosing its partners for the Chabahar development and creating transportation infrastructure in the southeastern part of the country. Bolstering cooperation with Japan and India, and developing relations with these countries in such fields as exchange of energy, construction and commissioning of refineries, development of Chabahar, and establishing rail connection between this important Iranian oceanic port and Afghanistan and Central Asia are major measures, which can further encourage China to take part in the Iranian project in order not to lose a strategic ally like Iran and play a more active role in the country's projects.

IMPORTANCE OF THE CHABAHAR AGREEMENT:

Afghanistan's Foreign Minister Salahuddin Rabbani, by explaining about his country's achievements in the fields of regional and international diplomacy in 2016, said that signing international agreements and winning the positive viewpoint of the international community to support Afghanistan shows the success of such diplomacy. "The signing of the trilateral agreement on transit from Chabahar port is of paramount importance for Afghanistan, Iran and India," Rabbani told reporters on Sunday.

He also reiterated that an agreement by China, Kyrgyzstan, Tajikistan, Iran, and Afghanistan on launching a joint railway was another success for his country's diplomacy apparatus to make Afghanistan become a center for connecting the regional countries to each other. The Afghan foreign minister said that his country has signed several security agreements with neighboring countries during his visit, and his country's high-ranking security officials to Tehran held constructive talks on security cooperation with Iran.³²

ANALYSES OF CHABAHAR IN THE FRAMEWORK OF SWOT:

Here, I will analyze the Chabahar development on the basis of the SWOT model. As we know, SWOT is a useful model for analysis for an important project like the Chabahar port, which is going to be the base for regional cooperation between three countries.

The SWOT model consists of the following stages:

- Strengths: characteristics of the business or project that give it an advantage over others
- Weaknesses: characteristics of the business that place the business or project at a disadvantage relative to others
- Opportunities: elements in the environment that the business or project could exploit to its advantage
- Threats: elements in the environment that could cause trouble for the business or project

³² - Afghan FM stress importance to trilateral agreement on Chabahar development. Kabul, IRNA, 19/03/2017 <http://www.irna.ir/en/News/82469432/>

Points of Strength:

Firstly, the development of Chabahar Port as the only oceanic port of Iran will allow diversification in the country's port of entry, including the restrictions on the Persian Gulf. Using Chabahar Port will accelerate transit of goods to Afghanistan and Central Asia, reduce the net cost of goods in the regional markets, and increase the use of this port in the transit of goods. Development of Chabahar Port and construction of Chabahar-Zahedan-Mashhad railway will yield positive and valuable consequences in the development of the eastern region. Creation of productive and developing jobs in industry, mining, construction, and services will create occupation for the local, regional, national, and international work force. It will ultimately eradicate the present population vacuum and reduce occupation in illegal businesses such as drug trafficking. These measures will convert the present geographical situation to a geopolitical one and promote the status of Iran in the region.

Upon the development of Chabahar Port and the completion of the southeast-northeast transit corridor from Chabahar to Sarakhs, ships will definitely choose Chabahar Port for loading and unloading of cargo to reduce fuel and time consumption and, therefore, create a big opportunity for the country to generate revenue (there is a 1900 kilometer distance between Chabahar Port and Imam Khomeini Port in Mahshahr). Iran plans to transfer a major part of its oil export terminals from the Persian Gulf to the east coasts of the Sea of Oman in Chabahar. Execution of this plan will result in the development of the country's southeast region. Cities alongside the east axis from Chabahar Port to the border of Pakistan and Afghanistan, such as Saravan, Khash, Zahedan, Zabol, Taibad, etc. will also develop and a significant change will occur in the region of the east axis (provinces of Sistan and Baluchestan and South Khorasan).

Chabahar Port has a promising future in the development of the east axis and improvement of Iran's foreign trade. Development and activities of this port can provide for reduction of excess loads on the country's communication roads, because Iran had to import, export, and distribute goods in its eastern half through its ports in the Persian Gulf. Meanwhile, the use of the oceanic port of Chabahar will bring about many economic benefits for the eastern half of the country both in terms of commerce and in terms of development of transits and the region's economy. If this port is taken into use and the transit and transportation are improved, the cities along the route will also become stronger in job creation and economic improvement, and the economic development and improvement will reduce the political-economic insecurities and smuggling in this deprived region. Therefore, the development of Chabahar Port and the east axis will generate many benefits for the country and particularly for the region in terms of improvements in foreign trade and transit.

The result for internal factors – Strengths

- The existence of long and abundant water borders
- The existence of Chabahar-Milak Transit road corridor. Chabahar directly has connection to the border.
- Strategic position of Chabahar compared to other Iranian ports, that is, having direct access to free waters of the Indian Ocean.
- The existence of the Persian-speaking countries of Afghanistan and Tajikistan that means there are cultural similarities along the corridor which may ease the connectivity.

Points of Weakness:

Lack of a spatial planning scheme at the national level as an upstream document of the country's development and shortcomings in the five-year development plans (the 6th of which will be executed next year) hinders the national determination to develop the east axis. Although Iran is addressed as the top country of the region in all aspects in the year 2025 (1404 SH) in Iran's 20-year vision, reaching that objective which was planned at an 8% annual growth has diverted Iran away from pursuing its goal. The issue of Chabahar is accounted for as one of the most important challenges of the country which requires attention from the government, the nation, and all state institutes. There is a dire need for a strategic plan, of which all institutes and organizations approve, and employment of all existing and available capabilities and capacities.

Despite India's favorable promise of contribution in this plan and announcement of a USD 100 million investment in 2003, it had not taken any steps in this regard until 2013. Coordination must be done in preparing the human resources for carrying out the full execution of the plan and construct railway, airports, and cargo and passenger terminals in the port so that they can manage the affairs at the deployment phase. The other weakness of this plan is that it has not accounted for scientific and technical education centers, plans for building infrastructures and equipment, or preparation of the equipment for future use.

Results of analysis of internal factors (Weaknesses):

- Political instability in Afghanistan and Pakistan in vicinity regions
- The lack of rail linkage between Chabahar-Zahedan-Mashhad
- The existence of a rival port (Gwadar) in Pakistan
- Weakness in air transportation and needs for an international civil airport in Chabahar
- Traditional agriculture and horticulture that needs to seriously be mechanized and modernized
- Lack of enough water and soil resources for future development
- Social anomalies and false occupations in some areas
- Constraints on water resources and inappropriate water and soil quality
- Unfavorable climatic conditions
- Lack of enough precipitation for agricultural activities to attract unemployed manpower in the region, and continuity of successive droughts
- Dispersion of favorable arable lands for agricultural and industrial activities in this range and low population density
- The desertification of large parts of this axis

Opportunities (external factors):

Iran's position on the international east-west and north-south transit gateway has created a unique opportunity for which it can be considered as the main reason India is interested in investment in the infrastructure segment of this region of the country. Meanwhile, Chabahar is the only oceanic port of Iran that is located at the international trade center of 24 governments and 15 independent countries; linking this port to the railway network of Iran can complete the puzzle of the country's transit capacities. It is expected that the development of transits from this port to the Central Asian countries on the east of the Caspian Sea and Afghanistan, and the increase in transit of energy and goods from Iran to Pakistan and India and vice versa, will generate stable foreign exchange earnings for Iran.

On the one hand, the increase of docking ocean liners and construction of large wharves with greater depths will turn Chabahar Port into one of Iran's largest trade ports. On the other hand, development of Chabahar Port will help India increase its exports to Iran, and at the same time, reduce the transportation costs by 30% through the export of goods via the north-south corridor; This is because Iran's trade with Europe is carried out through the Red Sea, the Suez Canal, and the Mediterranean Sea, which is not the fastest and the most economic way of exchange of goods with Europe.

Moreover, import of raw materials and mining products from Central Asian countries, including Afghanistan, at a more reasonable cost is the other reason for Indians to make investments in Chabahar. Likewise, the railway connecting Iran to Central Asia through the border of Incheh Borun in Golestan Province was inaugurated in 2014 (1393 SH) by the presence of the presidents of the three countries of Iran, Turkmenistan, and Kazakhstan. Development of Chabahar Port will allow the above-mentioned countries to enjoy the benefits of that railway route. As a consequence, Central Asian countries including Turkmenistan, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan as well as Afghanistan, which do not have access to international waters to extend their exports, can join Iran's transportation system through the railways and use Chabahar Port to transit and export their goods.³³

Ahmad Reshad Popal, Director General of Afghanistan's customs department, visited the development plan of Shahid Beheshti Port in Chabahar in the summer of 2016 (1395 SH) where he stated that the visit of Afghan officials to Iran, and to Sistan and Baluchestan Province in particular, facilitates investments and extension of bilateral ties and plays an important role in paving the way for trade activities. He mentioned that the objectives of their visit were to evaluate the investment opportunities in the port and the free zone of Chabahar, pursue the memorandum of understanding between Iran and Afghanistan, and activate border markets, adding that the amount of Afghanistan's annual export to Iran, particularly to Sistan and Baluchestan, is USD 36 million where its imports from Iran amounts to USD 1 billion and USD 500 million.

Extension of Iran-Afghanistan ties will benefit both countries and provide for their development and progress, particularly in the neighboring provinces. The Director General of Sistan and Baluchestan's ports and maritime organization highlighted that Chabahar Port's favorable situation makes it the hub of linking Afghanistan and Central Asian countries to the Indian Ocean. Neighboring countries including Afghanistan should appreciate the opportunity and fully enjoy the unique status of Chabahar Port. The development plan of Shahid Beheshti Port has had satisfactory progress and the loading and unloading capacities of the port will soon escalate from 2 million and 500 thousand tons to 8 million and 500 thousand tons.³⁴ China's contribution in this structure results in attraction of foreign investors and allows it to access the Indian Ocean besides and alongside Pakistan's Gwadar Port.

Other opportunities of Chabahar Port include:

- There are several landlocked countries in Central Asia, especially Afghanistan, in the vicinity of the provinces of Sistan and Baluchestan and South Khorasan

³³ Chabahar Corridor, The Development Bridge of Makran Coasts, Ettelaat Newspaper, Tue 5 July 2016- 15 Tir 1395 SH- 29 Ramadan 1437 Hijri, No. 26480

³⁴ - Chabahar, The Gateway of Connecting Central Asian Countries to the Indian Ocean, Ettelaat Newspaper, Thurs 18 Aug 2016- 28 Mordad 1395 SH- 15 Dhu al-Qi'dah, No. 26515

- Increasing demand for international services in Central Asian countries
- Tourist, religious, and historical attractions
- There are numerous border markets, which need to have access to sea port and water ways
- Existence of Chabahar Port as the gateway to the connectivity and exchanges
- The consensus of the leaders of the countries of the region on the development of the Eastern Axis (Chabahar-Zahedan-Mashhad), along international borders of Iran and regional countries
- The attention of the heads of states to the development of the Eastern Axis
- The presence of oil and gas resources in Central Asian countries and the readiness of Turkmenistan to have a port for export
- Communication capacities in marine transport which Chabahar is going to provide in near future
- Electronic communication opportunities
- Demand for rail, air, and road connections during the development of future economic projects
- The proximity of the Chabahar market to the world's fuel consumption markets, including China and India
- Attraction for foreign capital and technology transfer
- Production of new energy, especially in the field of wind and solar energy in vast desert areas in the region including Iran, Pakistan, and Afghanistan.
- International contribution for the reconstruction of Afghanistan
- Chabahar Port capacity to become a mega-port
- Russia's attention to have access to the Persian Gulf for equilibrium of power with the United States in the Persian Gulf

Threats (external factors):

Chabahar Port and the communication network of the south-north corridor in the east axis faces no serious threat except that of Gwadar Port. This network of port and routes is not even threatened by China who has invested in Pakistan's Gwadar Port and wishes to establish its trade relations with the territories of the Indian Ocean, the Sea of Oman, and the Persian Gulf. However, due to its competition against India over access to Afghanistan and Central Asia, Pakistan, with the help of China, seriously endeavors to bring the project of Gwadar Port into execution as soon as possible and utilize it as a means to defending national interests and competing against Chabahar. Although Gwadar Port is not Chabahar's rival, as Pakistani officials state, it has a crucial importance in creating stability, occupation, and foreign exchange earnings for Pakistan. Thus, the two ports of Chabahar and Gwadar are considered as rivals.

Gwadar Port is located 170 kilometers away from Chabahar enjoying the strategic status of that port; Gwadar, just like Chabahar, seeks to transit goods to Afghanistan and Central Asia, and as a consequence of officials' and planners' negligence in execution of Chabahar's development plan, Pakistan took the initiative of constructing Gwadar Port with China's assistance in 2002. This plan is designed in two phases where the construction of the installments and facilities of

the second phase will turn Gwadar Port into the most important strategic regional port in the Middle East.

The other source of threat to the development procedure of Chabahar Port includes inconsistency in the management of the port, disorganization in handling the affairs, parallelism in institutes and organizations, weakness in the structures of offices and customs, lack of a unified management, and, most importantly, shortcomings in creating a business atmosphere based on the international standards requiring some fundamental measures be taken, which will provide for a suitable atmosphere.

There was another threat against Iran during the period of international sanctions which has been alleviated upon the success of in the Joint Comprehensive Plan of Action (JCPOA). It is hoped that the required means of international interactions are provided in Chabahar Port and in the East Corridor through an appropriate management of the country's political atmosphere.

Other threats to Chabahar Port include:

- Proximity to insecure and unstable Afghanistan, and extremism, which make the region unsafe
- Ethnic and religious conflicts in Pakistan and lack of central government authority in the tribal area near Iran and Afghanistan
- Being on the International Drug Trafficking connection path
- The existence of ethnic and tribal differences in some parts of the eastern axis
- Extensive fuel smuggling from Iran to bordering areas
- Global negative propaganda against Iran by western mass media which makes some difficulties to foreign investors for decisionmaking to benefit from the available good opportunities
- The support of major economic powers such as China and the United States from the port of Gwadar in Pakistan as a rival port
- There are religious separation and spurred by some countries, including Saudi Arabia, which make the atmosphere of the region unstable

SECTION THREE
INDIA PERSPECTIVE
GULSHAN SACHEDVA

CHABAHAR PORT & AFGHANISTAN- INDIA- IRAN TRILATERAL AGREEMENT:

INDIAN PERCEPTIONS

While agreeing to built and convert Chabahar port into a hub of Indian economic activities in Eurasia and the Indian Ocean, New Delhi has made a strategic decision. In future, if there were any Indian alternative plan to the Chinese Belt & Road Initiative (BRI), the Chabahar port linked with the International North South Transport Corridor (INSTC) is going to be the central pillar of that strategy. Some scholars in the US argue that the project lacks “clear economic rationale” and called it a “dangerous distraction from more important efforts”³⁵ for India. This report, however argue that apart from clear strategic value of Chabahar, the project along with INSTC has the potential to not just only improve India’s economic linkages with Iran, Central Asia and Afghanistan, but also alter India’s continental trade.

When India-Iran agreement on the development of Chabahar port as well as trilateral agreement on the establishment of international transport and transit corridor among Afghanistan, India and Iran were signed³⁶, *The Indian Express* wrote in its editorial that this policy decision may mark Prime Minister Narendra Modi’s “most durable strategic legacy” and also “marks a new level in India’s overseas ambitions”³⁷. A leading Indian strategic analyst C Raja Mohan noted that these agreements “raise hopes for reordering India’s geopolitics to the north-west of the subcontinent”. Further, Chabahar project “allows India to circumvent the geographic limitations imposed by Partition and the enduring hostility with Pakistan”³⁸. Despite clear geopolitical and geoeconomic opportunities, the main challenge for India is to show its institutional capacities to implement the project in a time bound manner. Some slippage has already started³⁹.

India has to be very careful not to allow implementation to be delayed this time. After all, the project has been under discussion since the early 1990s. In 2003, the India-Iran *New Delhi Declaration* mentioned the then trilateral MOU between Afghanistan, India and Iran⁴⁰ which was to develop Chabahar route through Melak, Zaranj and Delaram. Even then it was very clear to policy makers that Chabahar “would facilitate regional trade and transit, including to Afghanistan and Central Asia, contributing thus to enhanced regional economic prosperity.”⁴¹

³⁵ Sarah Watson, “Does India’s Chabahar Deal Make Sense?” *The Diplomat*, 24 May 2017, <http://thediplomat.com/2017/05/does-indias-chabahar-deal-make-sense/>

³⁶ Ministry of External Affairs, Government of India “*India - Iran Joint Statement- " Civilisational Connect, Contemporary Context"*” during the visit of Prime Minister to Iran, 23 May 2016, [http://www.mea.gov.in/bilateral-](http://www.mea.gov.in/bilateral-documents.htm?dtl/26843/India__Iran_Joint_Statement_quot_Civilisational_Connect_Contemporary_Contextquot_during_the_visit_of_Prime_Minister_to_Iran)

[documents.htm?dtl/26843/India__Iran_Joint_Statement_quot_Civilisational_Connect_Contemporary_Contextquot_during_the_visit_of_Prime_Minister_to_Iran](http://www.mea.gov.in/bilateral-documents.htm?dtl/26843/India__Iran_Joint_Statement_quot_Civilisational_Connect_Contemporary_Contextquot_during_the_visit_of_Prime_Minister_to_Iran)

³⁷ “Chabahar Takeoff” *The Indian Express*, 25 May 2016,

<http://indianexpress.com/article/opinion/editorials/chabahar-port-deal-narendra-modi-tehran-india-iran-2817413/>

³⁸ C Raja Mohan “India’s Chabahar Test” *The Indian Express*, 23 May 2016.

³⁹ “Iran, India Trade Charges on Delay of Chabahar Port” *The Economic Times*, 6 February 2017.

⁴⁰ At a trilateral meeting between Afghanistan, India and Iran held on 4- 5 January 2003 at Tehran an MOU on the development and construction of transit and transport infrastructures in Chabahar-Milak-Zaranj-Delaram route was signed. It was aimed at improving access to Afghanistan, and upgrading the infrastructure at Chabahar port and relevant road segments. See answer to Indian Parliament question number 247, 20 February 2003. [http://www.mea.gov.in/rajya-](http://www.mea.gov.in/rajya-sabha.htm?dtl/12397/q+247++trilateral+meeting+between+india+iran+and+afghanistan)

[sabha.htm?dtl/12397/q+247++trilateral+meeting+between+india+iran+and+afghanistan](http://www.mea.gov.in/rajya-sabha.htm?dtl/12397/q+247++trilateral+meeting+between+india+iran+and+afghanistan)

⁴¹ Ministry of External Affairs, The Republic of India and the Islamic Republic of Iran “The New Delhi Declaration” January 25, 2003, <http://www.mea.gov.in/bilateral->

Between 2003 and 2015 very little happened on the project. One major reason of course was western sanctions against Tehran which made things complicated for any international project to be implemented in Iran. In the meanwhile, Indian capacities to implement overseas projects have grown manifold. This is clearly evident from completed Indian development projects in South Asia including in Afghanistan and in Africa and elsewhere. Reactivating INSTC is also one of the major agendas of India's *Connect Central Asia Policy*.⁴²

The Chabahar port is located in the Sistan-Baluchistan Province on Iran's south-eastern coast. The distance from Kandla port in Gujarat to Chabahar is only 550 nautical miles (around 1018 km), and that from Chabahar to Mumbai is 786 nautical miles (1454 km). It is about 72 km away from Gwadar port in Pakistan, which is being developed by China.

During the Indian Prime Minister's visit to Iran in May 2016, a ten year commercial contract for the development and operations of Chabahar Port was signed between India Ports Global Private Limited (a Consortium of Jawaharlal Nehru Port Trust and Kandla Port Trust) and Iran's Arya Banader. As per the agreement, India will construct two terminals (five berths) at Chabahar port. Construction of a multipurpose cargo terminal (600 mtrs length) and a container terminal (640 mtrs length) is envisaged. The Indian Ministry of Shipping and Port and Maritime Organization of Iran signed the contract as confirming parties. The contract involves investment US\$ 85 million for procurement of port equipment US\$150 million credit facility to Iran through Export-Import Bank of India (EXIM Bank) for port development. It is envisaged that at the end of tenth year, India will transfer ownership of the equipment to be provided through the investment to Iran without any payment. The original plan is to complete phase 1 of the project in 18 months. The first two years are grace period. This means India doesn't have to guarantee any cargo for the port during this period. From the third year, India will facilitate 30,000 TEUs (Twenty Foot Equivalent) of cargo at the port. The quantum will rise to 2,50,000 TEUs by the 10th year.⁴³

Indian state-owned IRCON International has also signed an MOU with Iranian Construction, Development of Transport and Infrastructure Company (CDTIC) to build a 500-km rail line from Chabahar to Zahedan at the cost of \$1.6 billion. Zahedan provides easy access to India built Zaranj –Delram road in Afghanistan. It also connects to Iranian rail network connecting it to Central Asia. It is also connected to Quetta via Pakistan railway. IRCON will provide all superstructure work and financing the project. As per company website, IRCON has completed more than 300 infrastructure projects in India and more than 100 projects across the globe in more than 21 countries. This include railway projects in Malaysia, Iraq, Sri Lanka, Algeria, Bangladesh, Brazil, Mozambique etc.

The deal is not only about port development but also Free Trade Zone development. As per reports, India's NALCO also plans to set up the aluminum smelter, while private and cooperative fertilizer firms are keen to build urea plants. Indian government has also announced to connect one of India's largest ports Kandla in Gujarat, which handled 106 million tonnes cargo last year, with Chabahar port⁴⁴.

documents.htm?dtl/7544/The_Republic_of_India_and_the_Islamic_Republic_of_Iran_quotThe_New_Delhi_Declarationquot

⁴² For details see Gulshan Sachdeva, *India in a Reconnecting Eurasia: Foreign Economic & Security Interests* (Washington DC: Centre for Strategic & International Studies/Rowman & Littlefield, 2016).

⁴³ Five Things about Chabahar Port and How India Gains from it" *The Economic Times*, 23 May 2016.

⁴⁴ "Kandla Port to Soon Be Linked with Iran's Chabahar: Narendra Modi" Live Mint 16 June 2017. <http://www.livemint.com/Companies/qwEDrTL03U8KJsZmJVDVRM/PM-Narendra-Modi-lays-foundation-stone-for-Rs993-crore-proje.html>

To follow developments, a trilateral meeting between Indian Minister of Road Transport & Highways and Shipping, Afghan Transport and Civil Aviation Minister and Iranian Minister of Road and Urban Development was held in September 2016 in New Delhi. The Ministers expressed satisfaction with the work progress and suggested steps to take the agreement further.⁴⁵ Despite certain initial hiccups, work on the project is underway. As per reports, the Indian cabinet has approved the funds and tenders for the project are out.⁴⁶ The India Ports Global Limited, has also invited private firms to express interest if they want to be considered for a strategic partnership in management of the project.⁴⁷

Chabahar in Indian Foreign Economic and Security Policy

While looking at recent foreign policy discourse in India, it is clear that Chabahar along with INSTC is becoming integral to India's evolving strategic landscape. While delivering inaugural address at the second Raisina Dialogue in New Delhi in January 2017, Prime Minister Modi asserted that India's "economic and political rise represents a regional and global opportunity of great significance". He was however clear that "India is pursuing its transformation in unsettled times." Modi outlined "rebuilding connectivity, restoring bridges and rejoining India with our immediate and extended geographies" as one of the main priorities of his government. The major connectivity priorities outlined in his speech were SAGAR project in the Indian Ocean, INSTC and Chabahar.⁴⁸

Broadly, India's economic and security engagements with the outside world have undergone serious transformation in the last twenty five years. This has resulted mainly due to changes in the global and Asian balance of power as well as intensification of global integration, technical changes and increasing trends in regional economic integration. The country is making a successful transition from an excessively inward-oriented economy to a more globally integrated economy. As a result of new policies, it has become one of the fastest growing economies of the world.

The last 25 years growth has broken all recent trends. Between 1900 and 1950, the Indian economy grew on average 0.8 percent a year. As population also grew at the same pace, per capita income was almost stagnant.⁴⁹ India got its independence from Britain in 1947. After independence, between 1950 and 1980 the average economic growth was about 3.6 percent per year. With limited liberalization, economic growth accelerated to about 5.6 percent per year in the 1980s. Since 1990, however, the average economic growth is above 6.5 percent per year in the last 25 years. Just before the global economic slowdown in 2008-09, Indian economy was growing at about 9 percent per year for five years.⁵⁰

⁴⁵ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=151240>

⁴⁶ "Hope to Complete Work on Phase 1 of Chabahar Port Project in 2018: Nitin Gadkari" *The Economic Times*, 9 March 2017.

⁴⁷ "Iran Offers India to Run Phase One of Chabahar Port" *The Economic Times*, 29 April 2017.

⁴⁸ Inaugural Address by Prime Minister at Second Raisina Dialogue, New Delhi, 17 January 2017.

[http://mea.gov.in/Speeches-](http://mea.gov.in/Speeches-Statements.htm?dtl/27948/Inaugural_Address_by_Prime_Minister_at_Second_Raisina_Dialogue_New_Delhi_January_17_2017)

[Statements.htm?dtl/27948/Inaugural_Address_by_Prime_Minister_at_Second_Raisina_Dialogue_New_Delhi_January_17_2017](http://mea.gov.in/Speeches-Statements.htm?dtl/27948/Inaugural_Address_by_Prime_Minister_at_Second_Raisina_Dialogue_New_Delhi_January_17_2017)

⁴⁹ Gurcharan Das "India: How a Rich Nation Became Poor and Will be Rich Again" in Lawrence E. Harrison and Peter L. Berger (Eds) *Developing Cultures: Case Studies* (London: Routledge, 2006).

⁵⁰ Author's calculations based on data released by Indian Ministry of Finance, see Economic Survey 2014-15, Table 1.2, pp A3-A4 (New Delhi: Ministry of Finance, 2015).

Despite some serious challenges like global economic slowdown, energy security, poverty, infrastructure, regional disparities and internal security, there are strong indications that rapid growth will continue. The main drivers of growth are going to be favourable demography, a relatively large middle class, a strong information technology sector and infrastructure-focused investment. Apart from expansion, the Indian economy is also being diversified significantly. Traditionally, the economy was dependent on markets in Europe and the US. In the last 25 years, there has been a rapid integration of the Indian economy within Asia, which has been reinforced by India's Look-East (now Act-East) policy initiated in the early 1990s. This is clearly evident from the rapidly increasing India-China as well as India-ASEAN trade. Although rapid growth in the last 10-15 years has raised expectations, global circumstances are less favourable today. As a result of these changes, India is adapting itself simultaneously to the economic globalization and to the emerging balance of power.

The strategic consequences of its economic performance are clearly evident. Growth and outward orientation has helped India to reorient its traditional partnerships with the developing world as well as forge new relationships with all major powers. Starting with France in 1998, India has established strategic partnership with more than 25 countries or groupings. These include strategic partnerships with Russia (2000), Germany (2001), the US (2004) the UK (2004), the European Union (2004), Indonesia (2005), Japan (2006), Brazil (2006), Vietnam (2007), Nigeria (2007), Australia (2009), Malaysia (2010), South Korea (2010), Saudi Arabia (2010), the ASEAN (2012), Singapore (2015), the UAE (2015). Apart from "special and privileged" partnership with Russia within the Eurasian region, India has already signed four important strategic partnerships with Kazakhstan (2009), Uzbekistan (2011), Afghanistan (2011) and Tajikistan (2012). In addition, it has elevated its relations with Mongolia to 'comprehensive partnership' (2015). Interestingly, India and China also established a 'strategic and cooperative partnership for peace and prosperity' in 2005. In addition to these bilateral arrangements, India has been playing an important role in South Asian Association for Regional Cooperation (SAARC), Indian Ocean Rim Association (IORA), Brazil- Russia- India-China-South Africa (BRICS), India-Brazil-South Africa (IBSA), Russia-India-China (RIC) and Group of 20 (G20) forums. Within Eurasia, India has also been participating in the Conference on Interaction and Confidence-Building Measures in Asia (CICA), the SCO (which it joined as a full member recently), and engaged in Afghanistan centric forums like RECCA and Heart of Asia process. These engagements have also led to many economic agreements, particularly in Asia. According to the Indian Ministry of Commerce, India has already signed about two dozen trade and/or transit agreements. Prominent among them include South Asian Free Trade Area (SAFTA); three Indian-ASEAN Agreements on trade, investment and services; bilateral Comprehensive Economic Cooperation Agreements (CECAs) with Japan, South Korea, Singapore, Malaysia; bilateral trade and transit agreements with Afghanistan, Bangladesh, Bhutan, Chile, Nepal and Sri Lanka. In addition, New Delhi has also framework agreements with MERCOSUR and the Gulf Cooperation Council (GCC). Further, negotiations with many other partners are either close to conclusion or at different stages of negotiation. These include FTA negotiations with the European Union, European Free Trade Area, Southern African Customs Union, Australia, Canada, Egypt, Indonesia, Israel, Mauritius, New Zealand, Thailand etc. Some other study groups have been set up which may lead to future trade agreements with - COMESA (19 member Common Market for East and Southern Africa), Eurasian Economic Union and the United States. New Delhi is also actively participating in the Regional Comprehensive Economic Partnership (RCEP), which is comprehensive free trade agreement being negotiated between the 10 ASEAN Member States and ASEAN's free trade agreement (FTA) partners viz. Australia, China, India, Japan, Korea and New Zealand. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement (FTA) negotiations are also underway. This initiative is to explore economic

cooperation on a sub regional basis involving contiguous countries of South East & South Asia grouped around the Bay of Bengal. BIMSTEC comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand.

Against this backdrop of emerging India, Prime Minister, Narendra Modi, received massive mandate in the 2014 parliamentary elections mainly on the promise of good governance and development. Hence, his agenda has been to accelerate economic growth through better performance. The Bhartiya Janata Party's (BJP) election manifesto criticized 10 years of 'jobless growth' by the previous government and promised to focus on manufacturing, agriculture, infrastructure and housing. It talked about 100 smart cities, high speed railway network and industrial corridors. It seems that the reforms initiated by the previous government will not only continue but will also be accelerated, particularly in areas like: labour reforms, energy sector deregulation and privatization. The new government has also focused on administrative changes and efficiency in public services. The immediate focus of Prime Minister Modi has been on new initiatives like 'Make in India', 'Clean India', Digital India, campaigns. Broadly, his major task has been to improve investor sentiment and bring the economy back on track with 8-9% growth as soon as possible.

It was widely expected that Mr Modi will concentrate more on the domestic front. Domestically, his government has faced significant political obstacles in fully implementing its economic agenda. One major initiative, Goods and Services (GST) Tax is finally being introduced.

Unexpectedly, however, he has been very active at the foreign policy front. As of June 2017 Modi has visited 62 foreign trips visiting 46 countries in six continents. As former foreign secretary Kanwal Sibal wrote recently "Modi has energetically expanded the political, security and economic reach of Indian diplomacy."⁵¹ During all his visits abroad, Modi has emphasized the importance of commerce as part of his foreign policy. The focus of his major visits has been to attract foreign direct investment, pave way for Indian companies to make investments and purchase of military hardware. As India had made important partnerships with major powers in the last two decades, Modi has further energized many of them. As a leading Indian strategist Brahma Chellaney argued, he is "shaping a non-doctrinaire foreign-policy approach powered by ideas", taken "some of his domestic ideas (such as 'Make in India' and 'Digital India') to foreign policy" and overall, "taking India from non-alignment to multi-alignment".⁵² Many analysts now believe that the Asian continent is on its way to becoming the new center of gravity in global politics. In an evolving Asian economic and security architecture, many Asian countries would be looking towards China or India as the anchors for their future economic and security alignments.⁵³ As an economic and military superpower, the U.S. would also like to play an important role in this evolving situation. In Central Asia and Afghanistan region, India will likely play the role of a counter-balance against the backdrop of increasing Chinese dominance and a relatively declining Russian and US presence. So in a rapidly evolving situation India will have to bring its rapidly increasing political, economic and military capabilities to the table as a threshold great power with vital stakes in the region.⁵⁴

⁵¹ Kanwal Siibal, "The Modi Style of Diplomacy: Many Hits and Some Misses" *The Hindustan Times*, 31 December 2015, <http://www.hindustantimes.com/columns/the-modi-style-of-diplomacy-many-hits-and-some-misses/story-ZLB3DO629Ty7PzNhSycrJI.html>

⁵² Brahma Chellaney "The Global Pragmatist" 22 May 2015, *The Open Magazine*, <http://www.openthemagazine.com/article/voices/narendra-modi-the-global-pragmatist>

⁵³ See Ashley J. Tellis, Travis Tanner and Jessica Keough, (Eds). *Strategic Asia 2011-12: Asia Responds to Its Rising Powers - China and India* (Washington DC: The National Bureau of Asian Research, 2011).

⁵⁴ Kapil Kak, "India's Strategic and Security Interests in Central Asia" in V Nagendra Rao and Mohammad Monir Alam, (Eds), *Central Asia: Present Challenges & Future Prospects* (New Delhi: Knowledge World, 2005), p. 208.

The Chabahar project and trilateral agreement has to be seen in this context. As noted above, India has been able to forge fruitful economic linkages with many Asian partners. In an evolving Asian economic architecture, however, India will not be able to play its full potential role if its economic relations with Central Asia and broader Eurasian region remain marginal. As a result, India has been looking for an economic policy framework in which the whole region including Afghanistan could be integrated with the Indian economy in a mutually beneficial partnership. This framework will also improve India's energy security as it may finally get access to some of the energy resources in the Eurasian region.

At present, India's trade with Afghanistan and Central Asian region is rather limited⁵⁵. Yet with the appropriate policy framework required infrastructure, this region has the potential to alter the nature and character of India's continental trade. If one looks at the wider region encompassing Pakistan, Afghanistan, Iran, Central Asia, the other CIS countries, and Europe, India's trade is very significant. In 2011-12, India's total trade with these countries amounted to over \$ 180 billion. As a result of overall economic decline, it came down to about US\$ 156 billion on 2014-15. Just before the global economic crisis of 2008-09, India's trade with this wider region was growing very fast, particularly with Afghanistan, Pakistan and Iran. If the earlier trend would have continued, it would have gone to about \$ 400 billion by now.⁵⁶ Even after taking into consideration all the cyclical factors and slowdown in exports to the region, trade volume of \$250 billion with this broader region is achievable within a limited time.

The majority of Indian trade is presently conducted by sea. Exports to Russia mainly follow Mumbai – Hamburg/ Bremerhaven - St Petersburg route (8675 nautical miles). Transit time is roughly 30 days. A dry run by Federation of Freight Forwarded Association of India (FFFAI) in 2014 showed that on INSTC Route 1 (Mumbai - Bandar Abbas– Baku - Russia) transit time was 17 to 20 days. Similarly, on Rout 2 (Bandar Abbas– Amirabad/Anzali –Astrakhan) transit time was 18-24 days and on Route 3 (Mumbai - Bandar Abbas – Russia via the new Rail Link upto Kazakhstan) transit time was 15-18 days⁵⁷.

Overland India-Pakistan trade has improved in the last ten years, but is mainly limited to bilateral trade, with little re-exported to third countries.⁵⁸ Border trade with China was stopped after the 1962 India-China war, though a limited opening has been made through the Nathula Pass in recent years. Therefore, with new infrastructure like Chabahar and improved transit facilities, even if about 20 % of total trade is conducted through Iran/central Asia/Afghanistan route, at least US\$ 50 billion of Indian trade could pass through this region annually within few years. So the main issue in the long run may not be volume of trade but improved transit facilities.

India-Afghanistan Ties and Possible Impact of Chabahar

With a broad understanding that peaceful and stable Afghanistan is crucial for regional stability, India is also trying to play an active role. With this engagement, Indian policy towards broader Eurasian region has also got some boost. So far it has pledged assistance worth \$3 billion. Indian

⁵⁵ As per Indian Ministry of Commerce data, India's total trade with Central Asian region and Afghanistan in 2016-17 was close to \$1750 million with \$825 million exports.

⁵⁶ For details see Gulshan Sachdeva, "Regional Economic Linkages" "Regional Economic Linkages" in Nirmala Joshi (Ed.) *Reconnecting India & Central Asia: Emerging Security & Economic Dimensions*, (Washington DC, Washington: Central Asia-Caucasus Institute & Silk Road Studies Program, 2010), 115-179.

⁵⁷ *International North-South Transport Corridor Dry Run Report* (New Delhi: Ministry of Commerce and Industry, Government of India, 2014). http://commerce.nic.in/publications/INSTC_Dry_run_report_Final.pdf

⁵⁸ Nisha Taneja and Sanjib Pohit (Eds) *India-Pakistan Trade: Strengthening Economic Relations* (New Delhi: Springer, 2015).

projects cover areas like road construction (218 km Zaranj-Delaram road), power (transmission line from Pul-e-Khumri to Kabul), Salma dam project, construction of parliament, and many projects in the areas of agriculture, telecommunication, education, health and capacity building. More than thousand young Afghans also come to India every year on short and long term fellowships.⁵⁹

To upgrade their relationship, Afghanistan signed its first ever “strategic partnership” with India in 2011. Apart from increasing capacity building as well as socio-cultural and educational linkages, the agreement pointed towards two major things. First, India agreed to assist in the training, equipping and capacity building programmes for Afghan national security forces. Secondly, it recognized that regional economic cooperation is vital for long term economic prosperity of Afghanistan and the region. In addition, the agreement created bilateral institutional mechanism consisting of annual summit meeting, regular political consultations led by foreign ministries of both countries and establishment of strategic dialogue on national security led by national security advisors of both countries.⁶⁰

Earlier, it was thought that Afghanistan has very limited resources. The Afghanistan government in 2010 claimed, however, that the country has huge untapped mineral resources worth at least 3 trillion dollars.⁶¹ For long term sustainability, it ultimately has to play its traditional role of facilitating trade and commerce through its territories. Afghan and American officials have repeatedly talked about the New Silk Road Strategy. Since 2005, the idea has been discussed at many academic and policy forums. This strategy is a long term vision of an international trade, transit and energy network that links Central and South Asian economies through Afghanistan.⁶² This was a good blueprint for Afghanistan but unfortunately has been mixed with regional geopolitics and exit strategies from Afghanistan. Still, Afghanistan has no other option but to continuously working for this strategy. Many analysts have pointed out difficulties in implementing this strategy particularly in the context of difficult India-Pakistan as well as Pakistan- Afghanistan relations. Moreover, the Chinese OBOR project has overtaken this initiative.

Despite these setbacks, some important developments took place under this initiative. The Afghan-Pakistan Transit Trade Agreement (APTTA) was reached after years of negotiations and active US encouragement. Under the agreement, both Afghanistan and Pakistan agreed to facilitate the movement of goods between and through their respective territories. Pakistan allowed Afghan exports to India through Wagah and to China through Sost/Tashkurgan. Similarly, Afghanistan allowed Pakistani trucks to reach Tajikistan, Turkmenistan, Uzbekistan and Iran through its territories. Afghan trucks could carry Afghan transit export cargo on designated routes up to Pakistani sea ports of Karachi, Qasim, Gwadar and Wagah border. At the moment, this is only a partial agreement as Afghan cargo is offloaded on to Indian trucks back to back at Wagah and trucks on return are not allowed to carry Indian exports back to Afghanistan. Despite its limited nature and serious initial problems in implementation, the

⁵⁹ For details of Indian projects in Afghanistan see Gulshan Sachdeva, “The Reconstruction Issue in Afghanistan: Indian & Chinese Contribution” in Marlène Laruelle, Jean-François Huchet, Sébastien Peyrouse, and Bayram Balci, eds. *China and India in Central Asia: A New Great Game?* (Palgrave Mcmillan, 2010).

⁶⁰ See Text of Agreement on Strategic Partnership between the Republic of India and the Islamic Republic of Afghanistan , October 4, 2011, <http://www.mea.gov.in/mystart.php?id=530518343>

⁶¹ Mining in Afghanistan, <http://www.acci.org.af/business-opportunities-in-afghanistan/138-mining-in-afghanistan.html>

⁶² See S. Frederick Starr and Andrew C. Kuchins, etc *The Key to Success in Afghanistan A Modern Silk Road Strategy*, Silk Road Paper (Washington: Central Asia-Caucasus Institute & Silk Road Studies Program, 2010).

agreement was seen as a major development in regional economic cooperation.⁶³ It also generated interest beyond Afghanistan and Pakistan. The work on extending the agreement formally to Tajikistan is at the advance stages.⁶⁴ To make this initial small project into a serious regional economic force, it is imperative to include Turkmenistan, Uzbekistan (and perhaps Iran) into the broader agreement. However, the project will be of very limited interest to Central Asian countries if traffic to India is not allowed in both the directions. Once Central Asians and India are included in the expanded APTTA, the region will be ready to take advantage from the emerging EEU space within a few years. At the recent Heart of Asia Istanbul Process meeting in December 2015 in Islamabad the Indian foreign minister Sushma Swaraj aptly articulated country's policy when she argued that "The 'Heart' of Asia cannot function if arteries are clogged. Nothing can benefit Afghanistan more immediately than full and direct overland access to India's markets to enable it to take advantage of the zero duty regime available to its exports to India. Similarly, if Afghan trucks could carry Indian products to markets in Afghanistan and Central Asia, that would be the best way to make trucking from Afghanistan cost-effective and viable, and bestow benefits to the whole region." She further argued that "India is willing to receive Afghan trucks on its territory, at Attari, and create necessary facilities for Afghan products there. We have also formally indicated our willingness to join the Afghanistan-Pakistan Trade and Transit Agreement".⁶⁵ Although India will continue to work for proper implementation of APPTA and India's inclusion into the agreement, prospects of that happening in the immediate future are very limited. As a result, India will also have to work for alternatives including INSTC and Chabahar.

As Afghanistan ultimately has to stand on its own feet, trade and connectivity issues will prove more important in the long run than unsustainable, foreign-funded development projects. In this connection, linkages with the Indian economy, a traditional market for Afghan products, will become crucial. Policymakers in Afghanistan have realized that to offset the negative economic effects of international troop withdrawals, they must concentrate on two issues. First, Afghanistan must attract foreign investment, particularly in sectors such as mining, hydrocarbons, infrastructure, telecommunications, agriculture, education, health services, and so forth. According to the World Bank estimates, the Aynak and Hajigak mines alone — potential targets for Chinese and Indian investment — would, if properly developed, create more than 20,000 jobs annually for many years and hundreds of millions in fiscal revenues in the coming years⁶⁶. Second, for long-term sustainability, Afghanistan must also play its traditional role of facilitating trade and commerce through its territories. In both these areas, India and other regional countries could become very significant actors. Both the 2012 'Delhi Investment Summit on Afghanistan', as well as the November 2013 'Doing Business with Afghanistan' meeting organized by the Federation of Indian Chambers of Commerce and Industry (FICCI), emphasized precisely these points.

The choice of India to host these summits reflects the scale of existing or announced Indian investments in Afghanistan. A consortium of seven Indian companies, led by the state-owned

⁶³ Gulshan Sachdeva, "Afghanistan and Pakistan Sign Trade and Transit Agreement," *Central Asia Caucasus Analyst*, Vol 12, No. 6, 2010.

⁶⁴ <http://www.bakhtarnews.com.af/eng/business/item/16990-afghanistan-pakistan-tajikistan-near-to-finalize-trilateral.html>

⁶⁵ http://www.mea.gov.in/Speeches-Statements.htm?dtl/26131/Statement_by_External_Affairs_Minister_at_the_Fifth_Ministerial_Conference_of_the_Heart_of_Asia_Istanbul_Process_December_09_2015

⁶⁶ The World Bank. *Transition in Afghanistan: Looking beyond 2014*. (Washington DC, 2012).

Steel Authority of India (SAIL), have won a USD 10.3 billion deal to mine three iron ore blocks in central Afghanistan. Some Indian companies also plan to bid for copper and gold projects.⁶⁷

Even from a very narrow base of US\$ 40 million a year in 2001-2002, India-Afghanistan trade has already grown to more than US\$ 800 million a year in 2016-2017. Afghanistan manages to export about US\$ 300 million to India each year (Table 1). Special trade preferences under the countries' bilateral trade agreement may have positively influenced these figures. Last year, the main import items from Afghanistan were dry figs (USD 64 million), asafetida (USD 72 million), raisins (USD 53 million), almonds, apricots, and pistachios. The chief export items from India were textiles, pharmaceuticals, cereals, and dairy products.

Table 1: India-Afghanistan Trade Values (2001-2002 to 2016-2017) (US\$ Million)

Year	Exports	Imports	Total Trade
2001-02	24.37	17.52	41.89
2002-03	60.77	18.46	79.23
2003-04	145.47	40.51	185.98
2004-05	165.44	47.01	212.45
2005-06	142.67	58.42	201.09
2006-07	182.11	34.37	216.48
2007-08	249.21	109.97	359.18
2008-09	394.23	126.24	520.45
2009-10	463.55	129.19	588.74
2010-11	422.41	146.03	568.44
2011-12	510.90	132.50	643.41
2012-13	472.63	159.55	632.18
2013-14	474.34	208.77	683.11
2014-15	422.56	261.91	684.47
2015-16	526.60	307.90	834.50
2016-17	507.68	292.90	800.58

Source: Export Import Databank, Ministry of Commerce & Industry, Government of India

It is clear that India-Afghanistan trade is growing despite internal and transit difficulties faced by Afghanistan. As traditionally Indian market has been the most important market for Afghan products, construction of Chabahr and proper implementation of trilateral agreement will be a big boost to India-Afghanistan trade. This will also greatly facilitate Indian development activities in Afghanistan.

Implications for India-Iran Relations

India shares strong historical and civilizational ties with Iran. Next to Iran, India has the second largest population of Shi'a Muslims globally (around one quarter of India's 172 million Muslims, or more than 40 million).⁶⁸ Iran also has been one of India's major sources of energy. In the last 15 years, however, relations with Iran have become increasingly vexed by the simultaneous growth of Indo-American ties and Washington's own Iran obsession. Nor have

⁶⁷ P Bhattacharya, "Indian Firms Aim to bid for Afghan Mines" The Wall Street Journal, 26 April 2012. Available at <http://goo.gl/dt4YpV>

⁶⁸ <http://shianumbers.com/index.html>

Indian desire to have cordial relations with other players in the Middle East, many of who have their own troubles with Iran, made things easy for New Delhi. During the Afghan conflict in the 1990s, India and Iran worked together to back the Northern Alliance in Afghanistan, although they have had diverging opinions about the presence of NATO/American forces.

Despite western sanctions, India sought to maintain commercial and energy ties. Still, oil imports from Iran slipped from 16.4 % of total Indian oil imports in 2008-09⁶⁹ to 5.2 % in 2015.⁷⁰ The nuclear agreement between Iran and the international community and removal of sanctions boosted bilateral ties. With the removal of sanctions, Indian oil majors are be more likely to purchase Iranian oil and make investments in Iranian oil fields where they have already made discoveries. This will also help India to expand its options in Afghanistan and Central Asia. Due to difficult India-Pakistan relations, Iran has been and will continue to be a crucial part of Indian strategy towards this region.⁷¹ Attracted by discounts, Reliance Industries, Hindustan Petroleum, Bharat Petroleum and HPCL-Mittal Energy Ltd resumed imports from Tehran in 2016. As a result, Iran's share of Indian oil imports surged to 11 percent in 2016.⁷² Recent data, however, show that imports in 2017 has declined. Some of the decline may be due to lower demand. However, reports also indicate that this is result of a possible retaliation by India for Tehran not awarding a gas field development to Indian companies. There are reports that Iran has made a preliminary agreement with Russian Gazprom for Farzad-B field discovered by an Indian consortium earlier.⁷³ These developments indicate some of the difficulties in bilateral relations. However, as former foreign secretary Kanwal Sibal wrote recently that Indian projects in the region need “purposeful progress” and “Iran is not an easy partner but perseverance will pay mutually beneficial results⁷⁴”

Due to global and bilateral economic and political developments, bilateral trade has shown ups and downs in the last few years. Major Indian exports to Iran include rice, tea, iron and steel, organic chemicals, metals, electrical machinery, drugs/pharmaceuticals. India imports mainly petroleum and its products, inorganic/organic chemicals, fertilizers, plastic and articles, edible fruit and nuts, glass and glassware, natural or cultured pearls, precious or semiprecious stones.⁷⁵

Table 2: India-Iran Trade Values (2001-2002 to 2016-2017) (US\$ Million)

Year	Exports	Imports	Total Trade
2001-02	253	284	537
2004-05	1231	410	1641
2007-08	1944	10944	11888
2010-11	2493	10928	13421
2012-13	3351	11594	14945

⁶⁹ India's Country-wise Crude Oil Imports Since 2001/02, *Reuters*, 6 August 2012, <http://in.reuters.com/article/india-crude-import-idINL4E8IU4HI20120806>

⁷⁰ India's Dec Oil Imports Pp 7 Pct y/y -Trade Data, *Reuters*, 15 January 2016, <http://in.reuters.com/article/india-oil-imports-idINL3N14Y59G>

⁷¹ See Meena Singh Roy, “Iran: India's Gateway to Central Asia” *Strategic Analysis*, 2012, Vol. 36, No. 6, pp. 957-975.

⁷² <http://in.reuters.com/article/india-iran-oil-idINKBN15G3XR>

⁷³ “Will stand by Iran, But have to Protect India’s Interests: Dharmendra Pradhan” *The Economic Times*, 15 June 2017.

⁷⁴ Kanwal Sibal “Iran is Not an Easy Partner for India but will Pay Mutually Beneficial Results” 23 May 2017, <http://www.dailyo.in/politics/iran-india-iran-business-balochistan-hassan-rouhani/story/1/17351.html>

⁷⁵ http://www.mea.gov.in/Portal/ForeignRelation/India-Iran_bilateral_December___2016.pdf

2013-14	4971	10307	15278
2014-15	4175	8955	13130
2015-16	2781	6279	9060
2016-17	2393	10506	12899

Source: Export Import Databank, Ministry of Commerce & Industry, Government of India

On the basis of existing and potential economic linkages with Iran, Chabahar investment can be justified. Only thing which is needed is immediate boost of bilateral economic ties resulting from more oil imports, energy and other investments in Iran.

Conclusions:

India has made a strategic choice in the form of Chabahar investment. The project has both strategic and economic implications for India's growing profile in Asia. Although the relevance of the project was known for quite some time, it is only now that the government has started to provide resources. Timely implementation of the project will also test credibility of India's independent foreign policy as well as its institutional capacities. This is particularly so in the context of growing Chinese profile in the form of Belt and Road initiative in the region.

The emerging India-Iran-Afghanistan engagement is going to enlarge New Delhi's options in the entire Eurasian region. Despite some initial hiccups, implementation of the project is well underway. From time to time many negative reports keep appearing in the media, particularly in the context of growing India-US relations and its impact on Chabahar project. Knowing the strategic nature of the project, this is expected. Indian policy makers, however, are determined not to allow this project to be affected by other considerations. Despite their own Iran obsession, the US policy makers also appear to understand economic potential of the project for Afghanistan's long-term sustainability. If Chabahar project and transit materialize, as expected, it may also put some pressure on Pakistan to open its borders for Indian trade and transit. This is similar to pressure created by the US on Pakistan through Northern Distribution Network (NDN) when NATO logistics supplies were denied by Pakistan.

At the moment India's economic engagement with the Central Asia region is limited and is not like to change radically in the next ten years, the first critical phase of the project. While linking it with the INSTC, it will have the potential to alter direction of India's trade with Eurasian Economic Union and Europe. Still, India's initial focus has to be on economic ties with Iran and Afghanistan. Despite drawdown of international forces and related economic impact, India-Afghanistan economic ties are growing significantly. This shows that Indian linkages with the Afghan economy are genuine, rather than resulting from short-term bubble created by international engagement. As Iran is still struggling to come out from western sanctions, this project is very significant. As initial focus of the project will be on Iran and Afghanistan, India must have a genuine business plan. Apart from potential investments in Iranian energy assets, other plans of aluminium and fertilizer plants at Chabahar also must be implemented simultaneously. These activities should be able to generate enough volumes in the initial phases. Once the project takes off, it will have its own momentum. In this context, Iran must look at all other projects and Indian investments inside the FEZ as well as other parts of Iran very sympathetically. These investments will be crucial for Chabahar success in the coming years.

The major challenge for the project may not come Afghanistan or from any changed foreign policy consideration by India. It may come from Indian and Iranian bureaucracies. Despite political support from the top; both are capable of frustrating any genuine initiative. Similarly,

Iran's relations with the West will also have its own implications for the project. Even though it may not affect directly, any new flare-up with the US will affect investor sentiment. And many of the new Indian investments in Iran are expected to be from the private sector as well. Some of these outside challenges were already calculated while deciding on the project. Regular consultations both at political and bureaucratic levels between India and Iran will be a key factor in smooth implementation of the project. Positive dissemination of project activities will also be crucial for larger public opinion in the region.

Although one of the objectives of investment in Chabahar is to bypass Pakistan, it may actually put pressure on Pakistan to recalculate its strategy towards Afghanistan and India. The major challenge to this engagement will come from the Chinese OBOR/BRI as all countries in the region including Afghanistan and Iran have positive opinion about the project. Iran may also like to involve China at the Chabahar port. As full fledged members, India and Pakistan have started participating within the SCO. Even Iran may join the grouping in the coming years. The geo-economics of Chabahar, CPEC/OBOR may perhaps push policy-makers in the region to recalculate their strategies. Despite Indian concerns about the CPEC, China may not view the Chabahar project negatively. More connectivity will help China as Beijing is one of the largest trading partners of almost every country in the region. To be more effective, China may also like to expand CEPC to other countries including India. Therefore, New Delhi has to be prepared to synchronize India-Iran-Afghanistan engagement into its larger strategy concerning emerging Asian economic architecture. The emerging geo-economics in the region may overtake geopolitical calculations of all players in the long run.

PAPER CONCLUDING OBSERVATIONS

The purpose of this paper is to present a plan on how to build strategic relations between Afghanistan, Iran and India so that steps may be taken towards the full implementation of the Chabahar Agreement and its operationalization. To this end, operationalization can be achieved through the endorsement and implementation of the India-Iran-Afghanistan trilateral transit corridor and the Afghanistan-India- Iran Transit Trade Agreements.

The development of SME exports and foreign direct investment are considered the most important elements in capital attraction, poverty reduction and increased employment in developing nations. For Afghanistan, the Chabahar Port presents an opportunity for strengthening Afghanistan's role in the global economy by making its goods available to the wider market and, in turn, making foreign goods available within the country. The port will thus promote the job market for not only SMEs but also traders and merchants. Furthermore, with the Chabahar port in operation, the country can work towards developing a sustainable, long-term labour force that facilitates the import and export of goods. Moreover, increased trade may serve as a means of enhancing foreign investments, provided security along the trade routes can be maintained.

Chabahar port is a milestone in the integration of Afghanistan into regional and global trade. In order to derive benefit from these agreements, Afghanistan must be prepared to capitalize on the opportunities created. The Afghan Government is committed to pro-trade policies and maintaining low trade barriers as evidenced by Afghanistan's relatively low tariff regime. One of the Government's top trade priorities is to improve trade and commercial relations with regional countries by adopting policies and procedures that facilitate and promote transit and trade. Regionally and internationally, Afghanistan's traders and merchants are viewed as highly innovative and industrious businessmen capable of operating across multiple boundaries. The Chabahar port presents an opportunity of capitalizing on both the social capital of this business expertise that exists within the nation and a physical route that connects Afghanistan to global markets.

Afghanistan is a landlocked country with the two nearest seaports being Karachi, Pakistan and Bandar Abbas, Iran. Karachi is approximately 2000 kilometers from Afghanistan. Moreover, Afghanistan shares the vast Durand line with Pakistan (2,450 km), the second largest economy in SAARC. Pakistan is Afghanistan's gateway to India, SAARC's largest economy. Thus, the ability to transit to and through Pakistan is critical to Afghanistan's export development. However, because of the difficulty to transit goods through Pakistan, many Afghan goods are exported to Pakistan and are then re-exported by Pakistan as Pakistani goods. The Carpet Exporters Guild estimates that 85% of Afghan carpets are re-exported by Pakistan and Afghan producers receive less than 50% of the total value. Despite a significant amount of bilateral trade and the existence of the 1965 Afghanistan Transit Trade Agreement with Pakistan, the ability to transport and trade goods across the Afghanistan-Pakistan border is still limited.

APTTA is seen as critical for providing access to seaports and to India, SAFTA's largest market, and one of the world's most dynamic economies. Often, Afghan goods are sent by air cargo which adds unnecessarily to the cost since shipping is significantly cheaper. Furthermore, cargo handling fees in India are high. The success of APTTA is intricately related to geopolitical relations between Afghanistan and Pakistan. The focus on the Chabahar port provides Afghanistan with new linkage opportunities with India and the rest of the world. The potential

for the Chabahar Port to reduce reliance on APTTA can help to ensure that APTTA does not serve as a bargaining chip in the matrix of wider geo-political challenges.

A Memorandum of Understanding was signed in Washington D.C., USA, to begin talks on a transit trade agreement between the two countries and to conclude and sign it by December 31, 2009. The agreement is still being negotiated and there is no firm date for completion.

The ratification and implementation of the India-Iran-Afghanistan trilateral transit corridor would facilitate bilateral trade and increase Afghanistan's access to markets in South Asian countries, Iran and Gulf nations. Transit trade should become more cost efficient based on reduced fees and time to transport goods. In addition, there should be new business opportunities in trucking, transportation, freight forwarding as well as service business along the trade corridors. In addition to greater access to South Asian markets, the three countries would also hope to gain more efficient trade-operations, a reduction in illegal trade and smuggling, more effective tariff collection and increased customs revenues from trade.

In sum, the India-Iran-Afghanistan trilateral transit corridor is a vital step towards Afghanistan – Iran – India economic development and the improvement of political relations between the countries involved.

ANNEXES FOR SECTION ONE

Memorandum of Understanding⁷⁶

Between,

Ministry of Commerce and Industries of Islamic Republic of Afghanistan and Chabahar Free Zone Organization (CFZO) of Islamic Republic of Iran

For,

regulating the Land Transit and transportations of goods and passengers and investment of Afghan traders in Chabahar Free trade-industrial zone

Kabul, 02, 1391

In the Name of God

This MoU is signed between Chabahar Trade-Industrial Free Zone Organization (CFZO), represented by Engineer Shahbaz Yazdani the Chief of the Board of Directors and the Chief Executive Officer of CFZO, and the Minister of Commerce and Industries of the Islamic Republic of Afghanistan, Professor PhD. Anwarullah Ahadi; based on the strategic policy of the Islamic republic of Iran on prioritizing the development of comprehensive relations and ties with the neighboring countries especially the fellow and brother country, the Islamic Republic of Afghanistan, in order to establish economical and trade relations and to provide and develop investment facilities, transit of goods and establishment of production units within the Chabahar Free Zone; on 13-2-1391 according to May 3rd, 2017.

Article 1

Goal and Objectives

The Ministry of Commerce and Industries of the Islamic Republic of Afghanistan and the Chabahar Free Zone Organization of the Islamic Republic of Iran (*hereinafter referred to as "the parties",*) entered into this MoU on regulating the transit and transport of goods through the Chabahar Sea Port for the purpose of:

- Developing, expanding and strengthening the historical and cultural trade and transit relations and ties between the two countries
- Providing more transit and transportation facilities through Chabahar port-Milak Zarang for both countries
- Expanding bilateral cooperation and preserving/protecting bilateral interests

In consideration with the *Agreement on International Transport and Transit of goods and passengers through land* which has been signed between the Interim Islamic Government of Afghanistan and the Islamic Republic of Iran on 1382 Hijri, according to 2003 AD; and

With emphasizing on the role of Chabahar as one of the most important ports of transiting goods for Afghanistan, and

with consideration of the international accepted principles, standards and best practices in regards to transportation and transit of goods through Chabahar sea port, herein as follows:

Article 2

Definitions

In addition to the terms stated in article 1 of the *International land transport and transit of goods and passengers* between the Interim Government of Afghanistan and the Islamic Republic of Iran, 2003; the following terms shall have the meaning ascribed to them as below:

- 2.1 **Transportation Company:** is an international transportation company of Chabahar Free Zone and Afghanistan (privately held) which is stated in article 7 of this MoU
- 2.2 **Transit:** is a process as defined by the World Trade Organization (WTO) and World Customs Organization (WCO) in accordance with the transit laws of both countries

Article 3

Scope of the MoU

⁷⁶ Ministry of Commerce and Industries, Islamic Republic of Afghanistan “<http://moci.gov.af/en>”

The provisions of this MoU are applicable on land transportation and transit of goods and passenger of the Islamic Republic of Afghanistan at Chabahar Free Zone and the route leading to Milek Zarang, Farah and Islam Qala ports of the Islamic Republic of Afghanistan.

Article 4

Freedom of Transit and Selection of Transportation Vehicles

4-1 both parties have agreed that all the goods under transit of both countries shall be entitled the right of free transit without any restrictions at the routes specified in article 3 of this MoU

- Transportation Service Providers and private or government sector traders of both countries shall be free to select the type of the transportation vehicles based on standards of the crossing country.
- Traders of both countries for transport of their transit goods can use free transportation vehicles or the vehicles of the International Transportation Company of Chabahar Free Zone and Afghanistan which are further detailed in article 7 this MoU.

Article 5

Allocation of Land for Afghan Investors at Chabahar Free Zone

- Chabahar Free Zone Organization allocates 50 Hectare of its proper land at Chabahar Free Zone for applicants of Afghan individuals and companies for the purpose of industrial, trade, transportation and release of goods operations as lease.
- the lease land is distributed and accessed to Afghan investors proportionally/in relevance to the scope of their operations and products and in accordance with the agreed procedure between the parties in this regard and under simple conditions, after introduced by Ministry of Commerce and Industries of Afghanistan. The applicant shall setup and start his operation within one year else the lease privilege will be revoked. The conditions for distribution of land is further specified in appendix 1 of this MoU
- CFZO has the right to revoke a granted privilege to an Afghan investor in case he ceases his operations after the start for consecutive two year.
- CFZO further agrees to lease more than 50 hectare of land to Afghan Investors in case needed under the same conditions
- The land lease prices are determined per each square meter for a period of 50 years; the lease price shall be determined with regard to the location of the land as min US Dollars 60 cent and max US Dollars 70 cent in a year which will be increased in max 10 percent at the end of 15th year of lease.

Article 6

Providing Employment Opportunities for Afghan Citizens at Chabahar Free Zone

- All Afghan companies investing or operation at Chabahar Free Zone can recruit Afghan employees and workers for their business and production operations as required in accordance with existing laws of CFZO
- Such employees and workers stated in paragraph (1) of this article shall be introduced by Afghan Ministry of Commerce and Industries and the Islamic Republic Of Iran shall issue them long term stay visas (3 to 5 years with possibility of extension within the frame of the laws of IRoI).

Article 7

Establishment of a Joint International Transportation Company

- Parties agreed to establish a joint international transportation company for effective transportation of goods and provision of facilities.
- The procedure for establishment and operation and other details of the joint international transportation company stated in paragraph (1) of this article is further explained in the AoA which is attached to this MoU as appendix 2 that shall be effective after signed and approved by both parties.
- Parties agreed to introduce their private sector partners. All the decisions taken by parties in relation to different matters of the joint company shall be effective after approval of a joint working group that shall provide equal decision making authorities to both parties.
- Both parties reemphasized on facilitating the boarder passing of vehicles transporting transit and trading goods of both parties to the territory of each other with compliance of the regulations and standards of the transiting country.

Article 8

Establishment of Branches of Private Banks and Offices of Transportation and Trading Companies

- As per this MoU, Governmental and private banks of Afghanistan can establish and open their branches at Chabahar Free zone, if introduced by the Central Bank of Afghanistan and are inline with the regulations of the Central Bank of Islamic Republic of Iran
- Investors and traders of both countries are allowed to open the branches of their offices at Chabahar and Kabul for executive of their business operations
- In regards to expanding economical, trade, investment and service relations, both parties agreed to launch exhibitions and conferences at Kabul and Chabahar Free Zone each year.

Article 9

Establishment of Air-way of Kabul-Chabahar-Dubai

- Parties are agreed to establishing and launching the Kabul-Chabahar-Dubai air way and vice versa with compliance of the air traffic regulations for the purpose of accelerating, facilitating and encouraging the private sector investments of Afghanistan at Chabahar Free Zone
- Governmental and private airlines of both countries can invest and operate in this area if introduced by the relevant ministeris of both countries
- CFZO and the relevant organizations in Afghanistan shall provide all the facilities for the required storages of petroleum/fule and the required fuel of those airlines approved by parties under the international laws.

Article 10

Amendments

- If any party wish to amend any provision of this MoU, the Afghan Ministry of Commerce and Industries and Chabahar Free Zone Organization shall provide their written opinion on the matter and if they deem necessary, shall assign an authorized committee to resolve the probem.

Article 11

Enforcement and Validity

- Parties after approval of this MoU in the light of their national law, shall notify each other through their diplomatic channels and the MoU shall be effective 30 days after receipt of the notice through the diplomatic channels.
- After signing and approval of the legislative administrations of both parties, this MoU/Agreement shall be effective for an unlimited period unless any of the parties submit a notice and proclaim its dissolution or invalidity 6months prior through the diplomatic administrations

This MoU containing 11 articles and 2 appendices is signed at Afghanistan Ministry of Commerce and Industries on 13/2/1391 in two copies in Persian version that its both copies along with the appendeces are of same value and authenticity.

Professor Phd Anwarullahaq Ahadai
Minister of Commerce and Industries of IRoA

Engineer Shahbaz Yazdabni
Chief of the board of Directors and CEO of Chabahar Free Trade-industrial Zone

Appendices:

- (1) Procedure for allocation of 50 Hectare land located at Chabahar Free Trade Zone
- (2) Article of Association of the International Transportation Company of Chabahar Free Zone

The procedure for allocating 50 Hectares of Land of Chabahar Free Zone to the private sector of Afghanistan through Ministry of Commerce and Industries of Islamic Republic of Afghanistan⁷⁷

For implementation of paragraph (4) of the Agreement of the Joint Committee of *Ministry of Commerce and industries of Afghanistan (MoCI)* and *Chabahar Free Zone Organization (CFZO)* on allocation of 50 hectares of appropriate land of Chabahar Free Zone along with all its infrastructural facilities and services (water, power, roads and canalization) to private sector of Afghanistan after payment of the relevant prices as per the laws of Chabahar Free Zone for the purpose of expanding productive, trading, services and transiting operations of Afghanistan. The procedure of transferring the land is as follows:

⁷⁷ Ministry of Commerce and Industries, Islamic Republic of Afghanistan “<http://moci.gov.af/en>”

Article One: Allocation of land from the 50 hectares which has been agreed between the parties, shall be possible and transferrable to applicants of Afghan private sector only in cooperation with and by written introduction of the Ministry of Commerce and Industries of Afghanistan

Article Two: with regards to the laws and regulations of the administration and management of free trade-industrial zones of the Islamic Republic of Iran (IRoI) in relation to transferring the ownership of land to foreigners, the mentioned land shall be provided to applicants in a frame of long term lease contracts for 50 years based on the requests of the applicants and the regulations and technical and engineering human resources of Chabahar Free Zone Organization. The term of the lease can be extended after 50 years in the case if the parties agree.

Article Three: Applicants shall be introduced to the Chabahar Free Zone Organization by the Ministry of Commerce and Industries of Afghanistan after assessing their justifications and investment plans. Applicants are obliged to obtain investment and operation licenses from the relevant administrations of the Islamic Republic of Iran.

Article Four: At first stage, the land is allocated to Afghan Ministry of Commerce and Industries for a period of three years. In case, the MoCI of Afghanistan introduces sufficient applicants of the private sector of Afghanistan for the allocated land within this period and the applicants obtain officially the operations license, the area can be expanded. Mutually, the area which is allocated or the MoU in whole shall be revised if the total number of investors do not reach the specific limit.

Article Five: After signing the MoU, the lease price of the land for applicants from Afghan private sector shall be as below:

The lease price shall be specified as per each square meter of land for a period of 50 years; the lease prices shall be 60 to 70 cents per square meter depending on the location of the land in a year which can be increased 10 percent at the end of each 15 years.

Article Six: In case, any of the applicants requires more land with extra services in addition to the previous 50 hectares, Chabahar Free Zone Organization will be ready to provide them the land and services after receipt and assessment of their justifications.

Article Seven: This procedure is an integral part of the third MoU signed on 22/6/1383 between the Ministry of Commerce and Industries of Afghanistan and Chabahar Free Zone Organization at Chabahar Free Zone, and is applicable under the governing laws on the Chabahar Free Zone Organization and the Islamic Republic of Afghanistan.

Proposed Article of Association⁷⁸

International Transportation Company of Afghanistan and Chabahar Free Zone

⁷⁸ Ministry of Commerce and Industries, Islamic Republic of Afghanistan “<http://moci.gov.af/en>”

Article of Association of the International Transportation Company of Chabahar Free Zone Organization (CFZO) of the Islamic Republic of Iran and the Islamic Republic of Afghanistan (Chabahar-Afghan Private Limited Company)

Chapter One

Company Name, Subject, Business Location and Term

Article 1- The name of the joint company is *International Transportation Company of Chabahar Free zone and Afghanistan* (“Chabahar-Afghan International Transportation”) private limited liability company that shall be managed under the commercial laws of the Islamic Republic of Iran and the Islamic Republic of Afghanistan.

Article 2- The company has a legal personality and shall be financially independent. It shall be managed under this Article of Association, written laws of Chabahar Free Zone and other relevant laws and regulations.

Article 3- Purpose of the company:

The Purpose of the company is operating and providing services in the fields of land and sea transportations, loading and unloading of goods, transportation of passengers, warehousing, port services, transportation of fuel, construction and building of vehicle maintenance and repairing facilities and centers, building terminals and utilization of them for the purpose of facilitating quality transiting and transportation services of different types.

Article 4- The duties and responsibilities of the company for realization and achievement of the purpose of the company are as follows:

- 4.1 Investing for expansion, establishment and management of transportation companies and units
- 4.2 Establishment and management of effective and continues transportation services in relation to the land transport
- 4.3 Receipt of financial and credit facilities from internal and external sources and granting of any type of facilities and financial and credit services within the scope of the purpose of the company
- 4.4 Approval of funds and financial resources provided to the company through special contracts for investing on the proposals relevant to the purpose of the company
- 4.5 Receipt of advisory/monitoring/supervisory and brokerage and agencies management services
- 4.6 Performance of all current operations and transactions, and signing contacts with individuals and entities/natural and legal persons.
- 4.7 Purchase and sale, lease and exchange of all types of goods whether movable or real state.
- 4.8 Membership in relevant international organizations and institutions which their operations and activities are related to the affairs and operations of the company, with observance of the relevant laws and regulations.
- 4.9 Provide any kind of guarantee, warranty and endorsement letters in relation to the operations of the company
- 4.10 Open a branch and agency within the country and abroad in accordance with the relevant laws and regulations
- 4.11 Performance of activities required necessary directly or indirectly for realization and achievement of the purpose of the company

Article 5- The headquarter of the company shall be at Chabahar Free Zone. It can be moved and shifted to other locations within the Islamic republic of Iran subject to the decision of the Board of Directors

Note: The Company can open its branches or agencies within or outside the country as per the proposal of the Board of Directors and approval of the relevant authorities

Article 6- The Company shall be established for an unlimited period.

Chapter Two

Total Capital, Shares and Conditions of Transferring shares

Article 7- The initial capital of the company is proposed to be equivalent to 1 million dollars from which 51% will depend to the Chabahar Free Zone Organization and 49% will depend to the Ministry of commerce and industries of the Islamic republic of Afghanistan (Afghan Companies) but, division of shares to 51 and 49 shall not mean that the Iranian side has superiority in voting than the Afghan side. All the decisions within the company shall be taken jointly with equal powers of both sides.

Article 8- It is not allowed in any way for the company to release bearer shares or converts the existing registered shares to bearer shares or to bring any changes in the structure and composition of the shareholders of the company or to change the legal status of the company “private limited liability” to other types but with approval of the General Assembly of the Company.

Article 9- The capital of the company can be increased at any time by an extraordinary decision of the General Assembly. The General Assembly while taking decision on increment of the capital shall determine the total amount to be increased and the amount paid when writing the acceptance letter as well as the payment conditions and regulations and the length of time in which the Board of Directors of the Company will request for payment of the remained amount. While accepting new shares, all the existing shareholders bear equal rights and conditions.

Both Afghan and Iranian sides can buy shares in proportion to their existing shares at least 60 days before the date of accepting new share by the Company

Article 10- The Shares receipt document shall be signed by Chief of the Board of Directors and the Chief Executive Officer of the Company and shall be stamped by the company as well.

Chapter Three Organization and Structure of the Company

Article 11- The constituent parts of the company are:

1. The General Assembly
2. The Board of Directors
3. The Inspector or Auditor

1. The General Assembly:

Article 12- The General Assembly of the company can be convened in existence of all shareholders or their authorized representatives. The ordinary and extraordinary sessions of the General Assembly are held in the headquarter of the company

Article 13- The General Assembly is normally formed 120 days after the end of each fiscal year. If the Board of Directors does not attempt to invite the ordinary session of the General Assembly within the specified period, the auditor shall invite the General Assembly for its annual session. The extraordinary session of the General Assembly or the ordinary sessions held extraordinarily can be convened at any time as per the proposal of the Chief of the Bboard of Directors or the proposal of the Chief Executive Officer to the Board of Directors or with the proposal of the auditor of the company or a group of shareholders carrying at least 20% of the total shares of company.

The Board of Directors shall convene the General Assembly within 40 days and in compliance with the procedures specified in the commercial laws of Iran and Afghanistan else the shareholders can request the auditor of the company to invite the General Assembly. If the auditor does not attempt to invite the General Assembly, the shareholders will be able to directly invite the General Assembly by observing all the procedures and formalities. In such case, it shall be stated there in the invitation letter of the shareholders that their request for convection of the General Assembly has been ignored by both the Board of Directors and the Auditor of the company.

Article 14- Invitations for other general sessions shall be published in the journal released by the Ordinary General Assembly of the company every year.

Note 1- The distance between the release of invitation of the General Assembly to the date of holding the session shall be minimum 10 days and maximum 40 days. The agenda, date, time and venue of the session shall be clearly stated in the invitation.

Note 2- The invitations of all other sessions of the General Assembly shall be sent to shareholders via ordered aerial post and shall be accordingly verified by fax or email.

Note 3- In occasions when all the shareholders are present in the General Assembly, there shan't be necessary to release invitations and follow the invitation formalities.

Article 15- The first session of the General Assembly whether ordinary or extraordinary shall be commenced and managed by the oldest member of the General Assembly. The General Assembly in the presence of shareholders, whether themselves or their representatives, shall assess the number of the shares to ensure the availability of the required quorum for the session and shall select from among the shareholders or their representatives two supervisors and a secretary, no matter whether they possess any share or not. The Chief of the Assembly and the two supervisors and a secretary altogether constitute the Executive Board of the assembly and will be responsible for management and administration of the assembly

Article 16- With presence of over than 50% of the shareholders of both parties who carries the voting rights, whether originally or their representatives, the required quorum for formality of ordinary session of the assembly is acquired. In case the mentioned quorum is not acquired at the first session, the General Assembly shall be re-invited as per the procedures specified in Note 1 and 2 of Article 14 of this Article of Association. The second ordinary session of the General Assembly shall be convened in the presence of any number of shareholders of both sides who carry voting rights provided that in the second invitation the matter of the non-completion of the required quorum of the first session is stated. All the decisions at the General Assembly shall be authentic and valid in case taken in accordance with the commercial laws of Islamic Republic of Iran and Islamic Republic of Afghanistan, with 50% plus 1 votes of the present shareholders, whether originally or by their representatives, at the session except in the selection of the managers and auditors.

Article 17- The required quorum for formality of the extraordinary sessions shall be presence of more than 50% of shareholders of both parties who carry voting rights whether originally or through representatives and if the required quorum is not acquired at the first session, the assembly shall be re-invited for the second time in accordance with the procedure specified in Note r1 and 2 of article 14 of Article of Association, provided that the

matter of not acquiring the required quorum at the first session is stated there in the second invitation. At the second extraordinary General Assembly of the company, a minimum one third of the shareholders of both sides who bear voting rights whether original or their representatives are required to be present. The decisions of the extraordinary session of the General Assembly is authentic and valid when taken by two-third of the participated shareholders of both sides.

Article 18- All the decisions of the General Assembly that are taken in accordance with the provisions of this Article of Association and the regulations of both countries shall also be effective on all other shareholders, even who were not present in the session or have casted negative votes on the decision of the assembly and such decision cannot be contestable.

Article 19- if the General Assembly can't decide about all the matters of the agenda at one session, the session will be adjourned to a date which shall not outlast more than two next weeks. Any session held in such a manner will not need release of further notice and its decisions will be authentic and applicable if the quorum for the session is complete.

Article 20: The minutes shall contain all the records of the discussions and decisions taken at any one of the general sessions and shall be prepared in two copies by secretary of the assembly and signed by the management board of the assembly. A copy of the minute shall be filed and kept in the headquarter of the company and the second copy shall be submitted by the Management Board to the Board of Directors for execution of the decisions or to register it with the relevant administrations if required by the law.

Article 21- The Ordinary General Assembly of the company has the authority to consider and assess all the matters of the company except those matters which are solely and exclusively under the authority of the extraordinary General Assembly, as stated in article 22 of this Article of Association.

Article 22- The authorities of extraordinary session of the General Assembly include; taking decision in relation to amendment and modification of the Article of Association, increment or decrement of the capital of the company, dissolution, integration, liquidation, modification and change of company's legal status, diversifying the activities of the company and any other attempt that requires a decision of the General Assembly based on this Article of Association and the regulations of both countries.

2. The Board of Directors:

Article 23- The Board of Directors of the company who is responsible for management and administration of the company is combined of five members who are alternatively elected for two years, alternatively three members from each country.

Note 1- Re-selection of the members of the General Assembly is allowed and the Chief of the Board of Directors shall be selected from among the members for one year, alternatively from among Afghan and Iranian members.

Note 2- The Chief Executive Officer of the Company shall be elected alternatively from among the members of the Board of Directors for two years

Article 24- Payment of salaries, wages, rewards, stipends, loans or credits either once or in instalments shall be subject to approval of the ordinary General Assembly of the company and shall be processed and paid in accordance with article 134 of the bylaw on amendment of the commercial law of 1347.

Article 25- The board of directors is the legal representative of the company and except those authorities which are restricted by the bylaw on amendment of the commercial law of 1347, it is authorized without any limitation of powers to perform all the below activities:

1. Perform all administrative affairs
2. Pursue all legal formalities required
3. Maintenance of the property of company and preparation of the asset forms
4. Preparation of the budget and determination of salaries and wages
5. Assessment of accounts and proposals in relation to annual dividends
6. Development and preparation of internal and external regulations
7. Execution of the decision of the General Assembly
8. Payment of debts and receipt of credits/receivables
9. Opening branches and granting and accepting of agencies
10. Recruitment and appointment of experts, employees and workers
11. Binding any kinds of contracts with companies, banks, governmental agencies, private organizations and individuals or entities
12. Purchase, sale and lease of moveable goods and real estates, machineries, equipment and all kinds of required goods of the company and also preform transactions on behalf of and on the account of the company.
13. Obtain loan through putting the properties of the company as pledge or without it
14. Receipt of credit
15. Grant loans

16. Open current and fixed bank accounts
17. Issue, endorse and payment of drafts, cheques, bills, promissory notes and other documents and their interests
18. Litigate on behalf of the company as plaintiff and defend the company's interests as a defendant at all stages of legal proceedings with posing full authority to refer to competent courts in accordance with the relevant regulations
19. Select arbiters or experts, claim against counterfeit, appoint legal attorneys, grant power of attorneys and required authorities to them and dismiss them when necessary, resolution of all types of disputes through negotiations, compromise or arbitration in compliance with the laws and regulations of both countries

Note 1- The board of directors in optimum performance of its duties shall have all the required authorities except the authorities that are granted exclusively to the General Assembly as per the provisions of the law and this Article of Association.

Note 2- the board of directors can delegate all or some of its authorities for management of the activities of the company to one or more individuals or entities.

Article 26- the members of the board of director shall continue working after completion of their working period and until processing and finalizing the formalities for selection of the new board members. The board of directors shall select the Chief and Co-Chief of the board and the Chief Executive Officer of the company from among the members with majority of votes. The Chief of the Board of Directors and the Chief Executive Officer shall not be from among the shareholders of any the parties at none of the periods.

Article 27- the management of routine and daily operations and activities is the responsibility of the Chief Executive Officer under the guidance, supervision and control of the Board of Directors

Article 28- the board of directors shall normally convene its meetings when required and at least once within six months. The Chief of the Board of Directors or Chief Executive Officer or three members of the board of directors together can attempt on convening the session of the board of directors at any time through sending an invitation. The invitation shall be released 20 days before the date of the session.

Note 1- the sessions of the board of directors shall be formal in presence of half of its members plus one whether originally or their representatives.

Note 2- the decision of the board of directors shall be only authentic and applicable when taken unanimously by all present members at the session whether originally themselves or their representatives.

Article 29- each member of the board of directors is allowed to use his vote himself or transfer his voting privilege to any other member of the board of directors or if approve to a third person through granting a power of attorney. In addition, each member of the board of directors can represent several absent members simultaneously however, other individuals who are not the member of the board of directors cannot represent more than one member at the session.

Article 30- all papers, evidences, cheques, drafts, promissory notes, contract and any other documents that create commitments and obligations to the company shall be signed by individual/s who are assigned by the board of directors for this purpose or their representatives within the limit of the powers delegated to them.

3. The Inspector (Auditor)

Article 31- the audit department is the inspector (auditor) of the company. Inspector's practices and performances shall not disturb and prevent the normal flow of work and operations of the company.

Article 32- The auditor is responsible to provide a report of annual balance sheet and profit and loss statement of the company along with a report on the general status of the company to the board of directors at least 30 days before convention of the annual General Assembly, in light of the laws of both countries. The board of directors shall submit the Auditor's report along with their own report to the annual General Assembly

Article 33- The auditor (inspector) can assess and audit the properties, assets and liabilities of the company at all the times and all the managers are obliged to provide all the equipment and facilities required for the inspector or auditor to perform his duties.

Article 34- in case of emergence of a situation as stated in article 13 of this Article of Association, the Inspector can directly invite the general assembly and inform the board of directors of such an invitation. In such a case, the agenda of the session shall be explained in the invitation.

Chapter Four

Fiscal year, Annual Profit and Lost Statement and Dividends

Article 35- the fiscal year starts on first of Hamal (21 march) and finishes at the end of Hot (20 March of next year) of each year except the first year which shall start on the date of registering the company and finish at the end of Hot.

Article 36- the annual profit and lost statement and balance sheet of the company shall be prepared by the board of directors and submitted to the inspectors (auditors) after the end of the fiscal year and maximum at the end of Khardad (June) before the date of convening the annual General Assembly. These statements along with the report of the auditors shall be presented at the headquarter of the company to the shareholders for assessment at least 15 days before the convention of the General Assembly.

Article 37- the annual balance sheet and the profit and lost statement of the company shall be prepared in accordance with the relevant laws and regulations and the common accounting standards and practices.

Article 38- the board of directors shall allocate 5% of the annual net profit to the savings of the company until the savings of the company reaches to 10% of the total capital of the company. After then, allocation of any amount from the annual profit of the company for the savings shall be subject to the decision of the annual ordinary general assembly of the company. If the capital of the company is increased, allocation of 5% from the annual net profit for the savings of the company shall be continued until the total authorized legal savings of the company reaches equivalent to 10% of the total increased capital.

Article 39- after approval of the balance sheet and the profit and lost statement by the general assembly, the dividends which are approved and declared to be distributed among the shareholders shall be paid to the shareholders at any time, any amount and any manner that the board of directors determines and deem appropriate in accordance with the law of both countries and no interest will be imposed on dividends that are not yet paid.

Chapter Five

Dissolution and Liquidation of the Company

Article 40- if due to any loss incurred, the company loses half of its capital or any other legal causes and aspects necessitates, the board of directors invites the General Assembly for extraordinary meeting to decide whether to dissolve the company or keep existence and thereby to provide the necessary proposal to the competent administrations and authorities.

Article 41: during the liquidation, the liquidation managers shall invite the General Assembly at the end of each year in compliance with the provisions of this Article of Association to perform all activities and practices instead of the board of directors. The liquidation managers shall submit a list of all moveable and immovable properties and goods of the company along with their report of balance sheet and profit and lost statements with full explanations of their actions taken to the General Assembly. The general assembly shall approve the accounts. Liquidation managers are authorized to decide about the assets and properties of the company for payment of the debt and liabilities. The remaining assets and properties of the company shall be then divided between the shareholders both Afghan and Iranian sides in accordance to their shares in the company.

Article 42- all documents, reports, minutes, accounting books, circulars and letters, meeting instructions and etc. shall be prepared in Persian.

Article 43- any matter which is not stipulated here in this Article of Association shall be performed in accordance with the provisions and conditions of the bylaw on amendment of the commercial law, ratified on 1347 Hijri, and in the absence of any provision about the subject matter in the mentioned law, it shall be performed in accordance with the common commercial standards and practice.

GLOSSARY FOR SECTION ONE:

MOCI- Ministry of Commerce

ACCI- Afghan Chamber of Commerce and Industry

ASIA- Afghan Investment Support Agency of Afghanistan

WTO- World Trade Organization

APTA- Afghanistan Pakistan Trade Ageremnt

EPAA- Export Promotion Agency of Afghanistan

AID- Asian Development Bank

IMF - International Monetary Fund

FDI- Foreign Direct Investment

FIATA- International Federation of Freight Forwarders Association

AFCO- Afghanistan Association of Freight Forwarding and Transit Companies

ATTA -Afghan Transit Trade Agreement

IRU- International Road Union

TIR- International Road Transport

ASYCUDA- The Automated System for Customs Data

EU- European Union
CPEC - China Pakistan Economic Corridor
NATO - North Atlantic Treaty Organization
NRRCP- National and Regional Resource Corridor Program
UNCTAD- The United Nations Conference on Trade and Development
ECO- Economic Cooperation Organization
SAFTA-South Asian Free Trade Area
CAREC- Central Asian Regional Economic Cooperation Program.
MoFTR- Memorandum of Foreign Trade Regime
TIFA-Trade and Investment Framework
GSP- Generalized System of Preferences
EBA- Everything but Arms
CSATTF-Central and South Asia Transport and Trade Forum's
FIATA -International Federation of Freight Forwarders Association
AFCO- Afghanistan Association of Freight Forwarding and Transit Companies

ANNEXES FOR SECTION TWO

Recent development in Chabahar Sea Port

On January 17, 2018, the Islamic Republic of Iran welcomed Omani investors' activities in the Free Trade Zones of Chabahar and Jask and in various economic sectors – in particular, the transit field; President Hassan Rouhani made remarks in a meeting with Oman's Consultative Assembly Speaker Sheikh Khalid bin Hilal al-Mawali.⁷⁹

Chabahar will open door to more transit from Indian ports

Iran's Ambassador to India, Gholamreza Ansari, said Iran's Chabahar port has positively affected transportation activities between the two countries and is expected to even open the door to transit cooperation with a number of Indian ports. He made the remarks while talking to Islamic Republic News Agency (IRNA) in an exclusive interview on the sidelines of a meeting between the visiting Iranian Minister of Road and Urban Development Abbas Akhundi and India's Minister of Railways Suresh Prabhu here on Friday.

Akhundi was here to attend a marketing event for the Iranian port of Chabahar, a part of whose development plan is done in partnership with India. He met and discussed the purchase of 200 locomotives and freight wagon with Prabhu and then signed a Memorandum of Understanding with the Indian state-owned body worth USD 6 billion to the effect. Commenting on the meetings and the agreement, Ansari said he was positive on the outcome of future collaboration between the two countries in transportation areas. He said the successful development of the Chabahar port will lead to the establishment of links with other Indian ports.⁸⁰

India to finalize locomotive deal with Iran soon

Talking to IRNA in an exclusive interview here, the Chairman and Managing Director of the state-owned RITES Bhawan railway company Rajiv Mehrotra said that the two countries signed a memorandum of understanding for the long-term supply of locomotives to Iran by India. He added that the MoU will facilitate the future cooperation between the two countries in the railway sector. Details of the memorandum will be finalized within the next two weeks. Although RITES has already worked with Iranian railways on other projects in the past, this MoU was a very important agreement for India.

Significance of Chabahar port for India

On the significance of the Chabahar port for India, Mehrotra reiterated that these locomotives will help swift movement of goods as well as passengers in Iran. "They will also be used in the Zahedan to Chabahar railway, which would help accelerate the port's development. This MOU with Iran and the supply of locomotives will also contribute to India's wider purpose of connecting with Central Asia and ultimately Europe through the Chabahar port in Iran," he said.⁸¹

Minister terms Iran's Chabahar port as gate to other nations:

New Delhi, January 10, 2018, IRNA - Iran's Minister of Roads and Urban Development, Abbas Akhundi, termed Iran's Chabahar port by the Oman Sea in southeast of the country as the "Gate of Nations." Addressing a seminar to explore business opportunities between Iran and India on Wednesday, he highlighted the importance of joint coordination and efforts to enhance cooperation between the two countries and said Iran, India, Afghanistan and all other countries which have an interest in the project should join hands to operationalize the Chabahar port.

⁷⁹ Tehran, Jan 17, IRNA – Omani investors are welcome to invest in Iran's economic projects in particular the transit sector, Iranian President said on Wednesday <http://www.irna.ir/en/News/82799500>

⁸⁰ Chabahar will open door to more transit from Indian ports . New Delhi, Jan 13, IRNA <http://www.irna.ir/en/News/82793886>

⁸¹ <http://www.irna.ir/en/News/82793574>

He noted that “Iran and India are focusing on enhancing their cooperation through three main corridors, namely the International North-South Corridor known as the INSC which passes through India and Iran to Russia. We introduced another corridor within this INSC which goes west to Europe and I think it is very important for both Iran and India. And the third one goes east through Afghanistan and Central Asian countries and finally to China.”

As for the achievements of the Iranian partners to the agreement, Akhundi said that the Iran-Azerbaijan railway track in the north of Iran has been completed and is to be inaugurated January 15, 2018. Also another railway link connecting Qazvin to Rasht in the northwest of the country – to be inaugurated in three months – and then continue from Rasht to Astara will give us double access from our ports to the West and Russia.

Iran, India to sign agreements worth USD 2b

New Delhi, January 12, 2018, IRNA - Iran's Minister of Road and Urban Development, Abbas Akhundi, said Iran and India have agreed to sign agreements worth USD 2 billion in railway transportation and the Chabahar Port development project. In an exclusive interview with IRNA here on Friday, the minister said that three important issues were discussed at the meeting with the Indian authorities, one of which was the development of the Chabahar to Zahedan railway worth USD 1 billion.

“The officials of the Indian company which is involved in this project visited Iran last week to make the necessary inspections and came back to their officials with proposals about the development of the railroad link.” He said the second issue discussed in the meeting with Indian officials focused on the production of 200 locomotives for freight trains. “It was an important deal between India and Iran. India is ready to fund the project.”

Saying a portion of the locomotives will be produced in Iran, he estimated the project to cost USD 600 million. “The project will be completed in three years. India has immensely focused on developing its railway industries and has up-to-date technologies, so co-operating with India for Iran means gaining access to the latest technology in the world in this particular field,” the minister added.

“The third issue which was negotiated with India was the joint production of rails between India and Iran. Part of the rails will be purchased directly from India, but most parts will be produced at Esfahan Steel Company. This Iranian company can receive 400,000 tons of steel from India,” Akhundi said. The government of India is also interested in financing the project, the minister said, Iran will try to turn these issues into an official and operational agreement during the upcoming visit of Iranian President Hassan Rouhani to India.⁸²

The view of Indian Ambassador to Iran, Saurabh Kumar, to Chabahar

Indian Ambassador to Iran, Saurabh Kumar, termed the development project of the Chabahar port in southeastern Iran as very important for India as it opens a gateway for New Delhi towards the Central Asian markets. He made the remarks while talking to the Islamic Republic News Agency (IRNA) in an exclusive interview on the sidelines of a meeting to promote trade between the two countries via Chabahar. The meeting was held on January 10, 2018 evening and was attended by Iran's Minister of Roads and Urban Development, Abbas Akhundi. The ambassador expressed satisfaction over the pace of cooperation between Tehran and New Delhi regarding the project. “The process of cooperation between Iran and India in Chabahar Port is very smooth and the project is progressing very well,” said Ambassador Kumar.

Noting that the Iranian president inaugurated the port on December 3, 2017, Kumar said, “We did a major wheat shipment from India to Afghanistan which is going through Chabahar, which shows the positive impact of the inauguration of the port on Indian trade routes. Things are moving very well there and all the processes pertaining to the procurement of the machinery, by the Indian side for the Chabahar is pleasantly underway.”⁸³

⁸² <http://www.irna.ir/en/News/82793383>

⁸³ <http://www.irna.ir/en/News/82792261>

Chabahar project, best ground for boosting Iran-India trade ties

New Delhi, January 10, 2018, IRNA - India's Minister for Roads, Transport and Highways, Shipping and Water Resources, Nitin Gadkari, referred to the development plan for the Chabahar port in southeastern Iran as the most important trade project jointly underway with Iran. The Indian minister made the remarks while talking to IRNA in an exclusive interview on Wednesday on the sideline of a marketing event here in the Indian capital which was also attended by Iran's Minister of Roads and Urban Development Abbas Akhundi. He said that "from the logistics point of view, Chabahar project is very important and it can be a win-win situation for both Iran and India. India supports this plan and we are completing Chabahar project. I feel that this project is good for business and investment in both Iran and India," he added.

Commenting on the theme of the seminar which focused on business and investment in Chabahar, Gadkari said: "Today's seminar will provide a platform for both Indian and Iranian investors to find suitable fields for investment and it will create more business between two countries." He went on to stress that the "Indian government is very keen to expand ties with Iran and we encourage Indian investors to enter Iran, specially to invest in Chabahar port. We welcome Iranian investment in India, too. We will swiftly solve the issues between us in order to increase bilateral relationship. There are many infrastructure projects between Iran and India and we are looking forward to take up more projects in Iran," he said, pointing to future relations between Iran and India.

The first phase of the Chabahar port development project is of prime importance for both Iran and India. India sees Iran's Chabahar Port project as a golden opportunity for New Delhi to enhance its regional role and cooperation.⁸⁴

Iran's Road Minister in India to promote bilateral cooperation

New Delhi, January 10, 2018, IRNA - Iran's Minister of Roads and Urban Development Abbas Akhundi arrived in the Indian capital on Wednesday to promote transportation cooperation between the two countries. The minister is accompanied by a delegation comprising of officials from both state and private sector companies, according to an IRNA reporter in New Delhi. He is going to explore methods of enhancing bilateral work in transportation areas and discuss ways of promoting marketing activities for Iran's newly-opened Shahid Beheshti Port in Chabahar located by Oman Sea in southeast of the country.

The Minister is also to attend a seminar with Indian experts on topics of mutual interest and brief the media on the purposes of his visit. Akhundi will especially focus on the joint project between Iran and India underway in Chabahar and discuss its potentials in a marketing event to be held here in New Delhi with the same purpose. President Hassan Rouhani opened the first phase of Shahid Beheshti Port in the southeastern city of Chabahar on Dec. 3, 2017 during a ceremony attended by 60 foreign guests from 17 countries. As Iran's only oceanic port and thanks to its very sensitive geopolitical position, Chabahar plays a vital role in connecting India to Afghanistan, Central Asia and Europe.⁸⁵

Pakistan considering Iran close friend, key partner: Speaker

Islamabad, December 25, 2017, IRNA - Speaker of Pakistan's National Assembly (Parliament) said that Pakistan considers Islamic Republic of Iran as its close friend and strategic partner. Sardar Ayaz Sadiq made the remarks during a meeting with Iranian Parliament Speaker Ali Larijani on the sidelines of first six-nation Speakers' Conference in Islamabad. The Speaker thanked the Iranian delegation for attending the conference, adding that Iran played an active role in making the conference a success.

Expressing his views, Sardar Ayaz Sadiq said that Iran and Pakistan share common friends and enemies at the international fronts. He called for enhancing strong ties between Iran and Pakistan in all areas. Ayaz Sadiq said that for the expansion of Iran-Pakistan relations, the role of parliaments of both countries is very important and

⁸⁴ <http://www.irna.ir/en/News/82792116>

⁸⁵ <http://www.irna.ir/en/News/82791019>

“we hope that the specific parliamentary committees of both countries will play an effective role in promoting mutual relations, including commercial activities.”

Larijani, for his part, said that Iran and Pakistan share many commonalities, thus both should take further measures to enhance their cooperation in political, economic and cultural fronts. He stressed the need for the implementation of the agreements signed between the two countries to cement bilateral ties. Larijani said there is a need for promoting road and railway links between Chabahar and Gwadar ports.⁸⁶

Indian wheat to transit to Afghanistan via Chabahar Indian, Afghan envoys visit Chabahar port

Zahedan, October 31, 2017, IRNA – A group of Iranian officials along with Indian and Afghan ambassadors arrived in Chabahar port on Tuesday to attend the special ceremony held for berthing of the first donated wheat consignment from India to Afghanistan. Director General for Sistan and Balouchestan Ports and Navigation Behrouz Aqaei said that the wheat consignment is to be transited via Iran. The convoy comprising 645 20-foot containers are to be transited to Afghanistan after unloading the goods in Chabahar port, Aqaei said. The Indian cargo is expected to berth at Chabahar port on Wednesday, he said.

Chabahar port is the best, safest and most affordable route for transit of goods between India and Afghanistan; he said, adding, “The route also facilitates shipment of goods to member-countries of the Commonwealth of Independent States (CIS). Transit of 110,000 tons of wheat from Chabahar port will be a turning-point for transit of goods from Chabahar port which will result in the expansion of cooperation and increasing volume of trade exchange between those countries, he said.

The new route will make India independent from transit routes in Pakistan. Indian Prime Minister Narendra Modi in his twitter on Sunday congratulated Iran and Afghanistan for shipment and re-export of Indian wheat to Afghanistan via Iran.⁸⁷

India inaugurates cargo transit route to Afghanistan via Iran

Tehran, October 29, 2017 IRNA – India inaugurated transit route for shipments of goods to Afghanistan through Chabahar port of Iran in a special ceremony on Sunday. The first wheat consignment from India reached Chabahar port in Iran and was re-exported to Afghanistan.

The new route will make India independent from transit routes in Pakistan. Indian Prime Minister Narendra Modi in his twitter on Sunday congratulated Iran and Afghanistan for shipment and re-export of Indian wheat to Afghanistan via Iran.⁸⁸

3rd Indian wheat ship to Afghanistan docks in Chabahar, Iran

Chabahar, November 26, 2017 IRNA – The third ship carrying complimentary wheat from India to Afghanistan docks in Chabahar, southeast Iran, on Saturday, said director general of Ports and Maritime Organization in Iran's Sistan and Baluchestan Province. The 640 containers that hold 15,000 tons of wheat will be unloaded and transited to Milak in southwestern Afghanistan, said Behrouz Aqaei. Chabahar is the nearest and the most economical port that can connect landlocked Afghanistan to open seas, he said.

Aqaei also said that 110,000 tons of India-produced wheat will be donated to Afghanistan through Chabahar Port. The wheat will be carried to Afghanistan by 5,000 trucks, which will create jobs in Sistan va Baluchestan Province of Iran and Milak in Afghanistan.⁸⁹

⁸⁶ <http://www.irna.ir/en/News/82775363>

⁸⁷ <http://www.irna.ir/en/News/82715209>

⁸⁸ <http://www.irna.ir/en/News/82712573>

⁸⁹ <http://www.irna.ir/en/News/82743453>

Iran critically important for India: NMF

Tehran, November 21, 2017 IRNA - Iran is critically important for India as it is helping the South Asian country meet its growing energy needs, said the executive director of India's National Maritime Foundation (NMF). The two countries also have traditionally friendly ties, Captain Gurpreet S. Khurana told Iran Daily on the sidelines of a meeting in the Indian capital of New Delhi with a delegation of journalists from the Indian Ocean Rim Association (IORA) member states.

Established on March 7, 1997, IORA is a 21-member intergovernmental organization which seeks to expand regional economic cooperation and strengthen mutually beneficial collaboration through a consensus-based approach. The Indian Ocean Rim defines a distinctive area in international politics consisting of coastal states bordering the Indian Ocean. Iran is a member state.

Underlining that India's thirst and hunger for energy resources are growing, he added Iran has done a great favor to his country by signing a long-standing oil and gas supply contract with the South Asian state in the past. At that time, of course, Iran was very secluded due to the US sanctions, Captain Khurana added.

NMF executive director hoped that Iran would not experience the same condition in the future and fully regain its former international status. Commenting on US efforts to hinder trade cooperation between Tehran and New Delhi, he said, "Americans often ask us what our relationship with Iran is and why it is so important for us [to strengthen our relations with the Middle Eastern state] that we sometimes abandon the US and go to Iran."

Responding to such questions by the US, he said, "Of course, there are reasons which are much beyond what I am going to say now. But what we tell them is: 'Listen, Iran is very important to us because Afghanistan is important to us.'" India and Iran have a very important, coherent and coordinated role to play in Afghanistan, Khurana added.

"Every country, whether it is Iran, the US or India, always seeks to ensure its own interests." He said certainly, there is a convergence between Iran and India both in terms of a buyer-seller relationship of energy resources, and the development of Chabahar Port in south Iran.

Sometime ago, India dispatched the first wheat consignment from Mumbai, a densely populated city on India's west coast, all the way through Bandar Abbas in the southern Iranian province of Hormuzgan to the International North-South Transport Corridor (INSTC), Khurana added.

He said that was because Chabahar Port is not yet ready. "Once the port is ready, that will be a very great trade route for India as it will be a sort of response to China's 'The Belt and Road Initiative' (BRI). NMF executive director said the Asia-Africa Growth Corridor and the INSTC are both of utmost importance to India adding that Iran plays a very critical role in the implementation of the latter and that is why the country is important to New Delhi.

The extreme importance of Chabahar Port lies in the fact that it provides India with land access to Afghanistan, he added.

"Pakistan has denied India's trade access to Afghanistan. I have always said that India is like an island due to the geopolitical and geophysical barriers it is faced with. We have mountain ranges in the north and west and have problems with China and Pakistan." India and Pakistan have fought three wars since independence from Britain in 1947. Despite a cease-fire agreement that was reached in November 2003, sporadic skirmishes continue in the region.

India has great and friendly relations with Afghanistan and is currently playing a very big stabilizing role there in coordination with Iran, he said.

India, Khurana said, needs to have access to Afghanistan and, beyond that, to Central Asian states to meet its energy needs, sell its products and help its economy as well as those of the countries with which it is engaged in trade grow together.

Shifting to the development of Chabahar Port and Iran's contribution to that end, he noted, "We are getting a very good support from Iran [in the project to accelerate the development of Chabahar Port]."

The Indian official expressed satisfaction that currently, the Japanese are also coming in to participate in the project, adding, India may have some required expertise but it may be lacking something else. Thus, he said, with the Japanese and their technology in, it will be very great.

Khurana added given that the Iranians are of course also there, he sees no reason why the project should not make progress and be completed. He blamed the slow pace as the two countries' only shortcoming in the development of Chabahar and hoped that the things would progress faster.

Based in New Delhi, NMF was established in 2005 as the nation's first maritime think-tank for conducting independent and policy-relevant research on 'matters maritime'. It was inaugurated on February 19, 2005.⁹⁰

Iran suggests linking Gwadar with Chabahar through railway line

Pak daily

Islamabad, October 24, 2017, IRNA – Leading Urdu news daily reported that Iran has suggested joining Pakistani port of Gwadar with Iranian harbor Chabahar through railway line. Daily Nawa-e-Waqt said on Monday Pakistan Railways has also completed survey of three routes to link Gwadar with other parts of the country through railway line.

Report said that linking Gwadar through railway line is major part of the China-Pakistan Economic Corridor (CPEC).

It said that Iran which has already expressed desire to join CPEC has also suggested linking Gwadar with Chabahar through railway line. Experts say that importance of railway link in the CPEC cannot be ignored. Under the CPEC many infrastructure projects are being constructed throughout Pakistan. Originally valued at \$46 billion, the value of CPEC projects is now worth \$ 62 billion. The project will link Pakistani Gwadar port to China Xinjiang Province.⁹¹

Chabahar trade balance hits \$803m in 9 months

Chabahar, January 16, 2018, IRNA – Director for Trade Promotion of Chabahar Free Trade Zone Mohammad Miri said on Tuesday that during first nine months of the current Iranian year (will end March 20) USD 803 million worth of goods has been exported and imported from the region. The figure indicated 37% increase in comparison with the same period of the preceding year, he added. He said that imports to Chabahar FTZ included raw materials and machinery.

Miri said that weight volume of importing, exporting goods in this period of time was 364,685 kilograms.⁹² The Shahid Beheshti Port in Chabahar, with the capacity of 8.5 million tons, is seen in this Nov 28, 2017, photo in southeastern Province of Sistan-Baluchestan. The port is to be inaugurated soon by President Hassan Rouhani.⁹³

⁹⁰ <http://www.irna.ir/en/News/82737280>

⁹¹ <http://www.irna.ir/en/News/82706429>

⁹² <http://www.irna.ir/en/News/82798186>

⁹³ <http://www.irna.ir/en/Photo/3546812>

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