Chapter VII: Conclusions and Finding:

This chapter evaluates the situation of Iran for the neighbouring countries. They have been interested in transportation, security and low cost methods to transit their goods through Iran. It also shows that none of these countries are in a position to access the warm waters on account of the creation of new countries in Central Asia the need of those countries to export and import goods and services with dependability. The south port of Chabahar in Iran can play the best role for transportation to Central Asia.

It also investigates the Central Asian potential to become the largest supplier of oil and gas to Asia and Europe. It has estimated reserves of approximately 200 billion barrels, which surpasses that of any region outside the Persian Gulf. A major source of geopolitical rivalry has been the extraction and transportation of oil and gas from this region. The physical access to these reserves remains an obstacle due to the physiography of the regions. The hope is that with the development of transit routes, and better security and transit services, the advantages will reach the inhabitants of the area.
1) Introduction:

For more than 2,000 years now, Iran has maintained its reputation as one of the topmost transit routes between Asia, Europe and Africa. Since ancient times, the Chinese, Indian, Greek, Roman and Egyptian merchants used to transit their goods via Iran. The Silk Road for centuries served as the country’s main international transit route. Transit of goods has been a prime source of revenue for many governments throughout the history of Iran. In recent times, the marine borders of 2,800 Kilometre along the northern and southern boundaries as well as vast international links have made Iran the main transit hub in this part of the world.

Iran has direct transit links with 15 countries. These countries include a major portion of the resources and population of the region. Hence, Iran should seize the opportunity to facilitate trading interactions between Asia and Europe. The value of annual trade between the East and the West is estimated at two trillion dollars. If Iran manages to absorb even 10 percent of this amount through its transit sector, the country will earn $200 billion per annum.

The location of Iran is best for the neighbouring countries and they have been interested in continental transportation, security and a low cost to transit their goods through Iran. None of these countries are in a position to access the warm waters. On account of the creation of new countries in Central Asia the need of those countries to export and import goods and services with dependability. The south port of Chabahar in Iran can play the best role for transportation to Central
Asia, Afghanistan and North-South corridor to Europe. In 1994 the new transportation strategies said that half the transportation in the world has been to the Far East and other parts of the world. Japan, China, the Southeast Asian countries and India have been the big pioneers of transportation on one side and on the other side there is Russia and Central Asian countries. They have been an important commercial centre and East European countries may support this route for access of transportation network. Central Asia has also the potential to become the largest supplier of oil and gas to Asia and Europe. It has estimated reserves of approximately 200 billion barrels, which surpasses that of any region outside the Persian Gulf. A major source of geopolitical rivalry has been the extraction and transportation of oil and gas from this region. The physical access to these reserves remains an obstacle due to the physiography of the regions. The hope is that with the development of transit routes, and better security and transit services, the advantages will reach the inhabitants of the area.

This chapter aims at drawing conclusions from the current information and later offering essential suggestion about Chabahar as a free-trade zone.

2) Chabahar and Asia:

Chabahar is a free port (Free Trade Zone) on the Makoran Coast (Oman Sea and Indian Ocean Coast) in the southeast tip of Iran and is officially designated as a Free Trade and Industrial Zone by the government of Iran.

The Oman coast is one of the most pivotal in the world because these areas have access to international waters and a good capacity for establishing ports by themselves. It has a depth of 200 meters. The stable coastal strata of this region have some other merits. Along the Sistan & Baluchistan coastal line, Chabahar is a strategically and geopolitically important port on account of its proximity to the
Indian Ocean. According to the previous plans of Iran, three ports had been considered along the south coasts of Iran. They were Emam Khomaini port covering the west, Bandar Abbas covering the centre and Chabahar for covering the eastern part of Iran. Apart from the main oil ports of Iran, the three ports of Emam Khomaini, Bushehr and Chabahar can be utilized as substitutes having capacity to accept ships, attempt new portal activities and solve commercial problems than the other ports of Iran.

Geopolitically, Chabahar plays an important role not only in the political geography of the country but also in the world, especially in Asia. As this region has a 300 Km water border with the Oman Sea and the gulf of Chabahar. It has special location out of the Hormoz strait and as an entry to the Indian Ocean. Considering the limitations of other ports which could result from the possible closure of the Hormuz channel, in a time of crisis, Chabahar can act quite freely to establish connections with the countries of the world.

Moreover, in the 1980s there was the appearance of the dual phenomena which has increased the geostrategic importance of the place. Firstly the countries of Central Asia and their increasing need to gain access to international waters; secondly the Southeast Asian countries which are on the threshold of industrialization. According to UN studies, half of the transportation world in future will be done between these countries and other places of the world. In this strategy Chabahar will be considered as a pivotal centre for commerce and production. As the southern-most corridor of global transportation begins at China and passes through South and East Asian countries and ends at Chabahar.

It has been a long desire for the Central Asian countries and Afghanistan to gain access to international waters. The South-western Asian countries have also desired access to the economic markets of the Central Asia. Speaking about the strategic location of the country, the province Chabahar, as the only oceanic port
and passage to the international waters, is of high significance. The port is located at the very close point to the Indian Ocean and hundreds of miles closer to international routes in comparison to other ports like Bandar Abbas. It is clear that this temporary difference along with costs affect the transit activities for buyers and sellers. This aspect will be very important. When Compared to Bandar Abbas, Chabahar is located in a safer area along the Coast of Oman and has little historical record of facing sea combats.

3) Chabahar and Central Asia:

From the third century until the 16th century, Central Asia was at the crossroads of the trade between the East and West. However at the beginning of the 17th century, for various reasons, the caravan trade between Asia and Western Europe declined. Today, land-locked Central Asian countries face accumulated geographic, economic and institutional obstacles. Central Asian countries have been neglected in the surveys concerning land-locked position and have been gravely affected by geographical difficulties.

In Central Asia, transport is almost exclusively achieved by land (road, rail or pipeline). Air freight was a low priority of Soviet planners and they did not develop it. As aircraft is the most expensive mode of transport, low value-added goods are not transported by air. Consequently, air freight, which could break the effects of being landlocked, has been neglected in the region. The theory that "distance melts", underlines this point indirectly by referring to large ports with good infrastructure. Sea access is crucial nowadays. Maritime trade has continuously expanded in the last three centuries. The decline of real costs of shipping explains development of maritime trade. The States which have been deprived of a sea coast could consequently become victims of this trend because inland haulage transport costs have not diminished at the same pace. It is more
than seven times more expensive to transport goods by land than by sea. A plausible explanation could be the concerns regarding the obstacles of crossing the border. Unlike coastal states, land-locked states have no maritime borders, but they have only land borders. UNCTAD\(^1\) emphasises the real cost of crossing the border for land-locked countries. It calculated that each crossing of the border within the FSU\(^2\) region increases truckload freight rates by 400 USD.

While it is difficult to estimate the total cost for land-locked countries to cross the border, they are also a severe impediment to trade. For instance, freight in transit through Kazakhstan has dropped by more than 90% (in comparison to 1992). The collapse in production is one of the explanations, but transport professionals attribute the decline to the dramatic increase of transport costs through new tariffs, greater corruption and decay in infrastructure.

One of the important geopolitical consequences of the demise of the Soviet Union was the rise of intense political and commercial competition for the control of the vast energy resources of the newly independent and vulnerable states of the Caucasus and Central Asia. Moreover, the fact that the three countries share the majority of the resources and energy of the region, namely the landlocked Kazakhstan, Azerbaijan and Turkmenistan, make them depend on their immediate neighbours for access to the markets. Central Asian economic arrangements are temporary solutions dealing only with the transport of the early oil. The final decision regarding the selection of the pipelines which will carry the main oil was expected sometime in 1998. In theory, new pipelines could go in almost any direction. Northern routes could enhance the existing network and serve the needs of Russia. Western routes could serve Europe, while southern or eastern routes could serve the Asian markets (See figure 21).

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\(^1\) United Nations Committee of Trade and Development
\(^2\) Former Soviet Union
However, Tehran has declared that Iran is the logical route (one of the shortest), for transport of Central Asian countries oil to the world markets, especially the Asian markets. This declaration is based on the possession of several well-equipped ports on the coast of the Persian Gulf and Sea of Oman by Iran and also well developed shipping terminals, a technically skilled workforce and a widespread pipeline network that can be easily reached from Azerbaijan, Turkmenistan, or Kazakhstan.

More importantly, routes from Iran do not pass through areas where Russia could bring to bear substantial political or military pressure. Furthermore, there isn’t any major internal conflict in Iran which can endanger the security of the pipeline. Therefore, one can argue that, compared to areas like Armenia and Azerbaijan, Iran is a much safer option for long-term export of the oil and gas of the region, besides, routing oil through Iran would be more economically viable.

3 Source: world security network
In fact, given its location, its highly-developed oil sector and its existing network of pipelines, Iran could, as Iranian oil officials have stressed, offer a route for Central Asian oil that is ‘the easiest, the safest and the cheapest’. Its cost would not be more than $300 million. It cannot compare with that of the $4 billion for a pipeline going on in Turkey.

These advantages and assessments have led many observers to suggest that Iran, by simple geography, may be the best export route for Central Asia and Caspian Sea oil. Objectively, this makes relations with Tehran very important for the landlocked countries of the region. It not only presents the optimal route for linking this region with world markets, but is also the shortest route for other countries to reach Central Asia’. As for the region, some countries have displayed interest in Iranian routes. Azerbaijan and Turkmenistan, each of which shares a long border with Iran, have sought to include Iran in some of the key consortia, now being established. This trend is expected to increase.

Although Iran, based on the advantages mentioned, has sought to play a role in determining the future of Central Asia, Washington has viewed the region as a hedge against it. In this connection, some of the ‘Gamers’ believe that Iran should be banned from accessing the political and economic influence in the Caspian region that an export pipeline would bring. US policy had been to oppose any pipelines through Iran.

Trade, both within Central Asia and between Central Asian states and the rest of the world, continues to be hampered by numerous barriers: such as complex trade policies that are badly coordinated and lack transparency; high costs from poor transport and transit conditions; delays while crossing the border; and onerous administrative and clearance requirements. In Kazakhstan, for instance, it takes an estimated 93 days to move standard cargo from the factory gate to the nearest export port, to fulfil all the customs, administrative and export
requirements, to load the cargo onto its destination, whilst in Uzbekistan 139 days are needed on an average to import a standardised shipment of goods.

In the south the distance by land from Chabahar to Turkmenistan and Kazakhstan is the shortest to any southern port when compared to the Central Asian countries. In case of the construction of the north-south railway in the eastern half of the country, the transit path from Chabahar to Mashhad will be a marginal and will have less effect on the internal traffic. Central Asian countries like Kazakhstan and Turkmenistan need only to cross one or two borders to reach the sea port at Chabahar. In this route transit cargo will be safer and cheaper. Chabahar with good location outside of Persian Gulf, connected to the Arabian Sea, the Indian Ocean and located in North-South Corridor has links with South Asia market and non-traffic port. It is the best point for transportation to and from Central Asia to the world market.

4) Chabahar and Afghanistan:

The growth of trade and commercial links require facilities for the smooth movement of cargo, the development of transit infrastructure and simplified and harmonious procedures along the transit route. The unique geographical position of Iran makes it a natural transit hub for South Asia, Afghanistan and Central Asia. It has multiple transit routes that bring down costs, provide multiple options to landlocked countries and encourage trade.

Transportation in Iran is facilitated by its extensive and sophisticated network of roads and railways that connect many of the main cities of the country. Recent cooperation between Iran and India has resulted in the construction of several routes which allow the transportation of goods between Iran and Afghanistan.
It is a great example of regional cooperation which shows how such a vision can galvanize trade and the economy of the whole region. India, Iran and Afghanistan are working together to develop the Chabahar-Milak-Zaranj-Delaram route to Afghanistan. India has committed USD 135 million for the construction of the Zaranj-Delaram road, Iran would start executing the project, once they have examined the detailed project report which is already available with it. An Indian consortium has been engaged by Ports and Shipping Organization of Iran to work on the development of Chabahar port and also for a railway link between Chabahar-Fahraj-Bam.

Figure 23: Road connection between Chabahar Port to Afghanistan

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4 Source: India’s peace moves: Ruse to hold successful
The most logical supply line into Afghanistan from Iran begins at the Chabahar Port in the Gulf of Oman. From there, after being offloaded, supplies could be "sent by road to the south-western Afghan town of Zaranj, which is connected to the main Afghan highway by a road, recently completed by the engineer corps of the Indian Army."

This route, via the Chabahar-Zaranj Highway and the Zaranj-Delaram Highway (from which the main Herat-Kandahar road is accessible), is short and straightforward. The Chabahar port is becoming increasingly attractive as India and Iran have been working together to develop the port complex since 2003 (See figure 22).

In 2003, India, Iran and Afghanistan agreed to the development of transit and transport between the three countries, the elimination of barriers and constraints and the provision for a rapid, safe, smooth and low-cost transportation. At the end of the meeting, between the representatives of the three sides, a Memorandum of Understanding 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 also other relevant road segments. India has also financed the crucial Zaranj-Delaram Link Road Project, which will give India a direct trade link to Afghanistan through Chabahar's deep-sea port of Iran. This was set to be completed by the Border Roads Organisation (BRO) in 2009.

Additionally, the construction of the Milak Bridge over the Helmand River, which was first used in March 2005, shortens the traditional distance of 1,450 Km to 950 Km between the Iranian port of Bandar Abbas and Dogharoun on the Afghan border. The Milak Bridge, which connects Iran and Afghanistan, is also accessible from Bandar Abbas, the most important port of Iran.
Alternative routes to Afghanistan from Iran also include the Khaf-Herat railway and the Dogharoun-Herat road. The idea of constructing a railway between Khaf Station in Iran (which is part of the Bafgh-Mashhad railway) and Herat in Afghanistan, first emerged in the 1970s. There were several difficulties that prevented the implementation of this idea. The new idea was first proposed in June 2002 in a Memorandum of Understanding between the Iranian Transport Ministry and the Ministry of Public Utility in Kabul. On the Iranian side, the work officially began in July 2006. Upon the completion of this project, the annual traffic is expected to reach 6 to 8 million tons, which include oil products, iron, steel, and a range of industrial goods.

The Iranian Islamic Republic Railways (RAI) has proposed extensions with the hopes that the Herat line will form the first link of a major rail trade route to Central Asia. The line would run approximately for about 700 kilometers across northwestern Afghanistan to Meymaneh, Sheberghan, and Sher Khan Bandar on the border with Tajikistan. It presents an opportunity to connect the 1,524-millimeter-gauge line with that which crosses the Uzbekistan frontier near Termez which can extend as far as Hayratan. Here trains carry produce like petroleum and building materials and run almost on a daily basis currently.

Another route extending to Herat is the Dogharoun-Herat road. This road, which was recently renovate at a cost of $60 million and inaugurated in February 2005.

To facilitate trade, Iran (along with India) has agreed to upgrade the road and railway systems connecting the official border crossing point at Dogharoun on the Iranian side and Islam Qaleh on the Afghan side. The Iranian customs post is located near the border town of Taibad, about 150 Km west of the principal western city of Afghanistan, Herat. The triangular project between New Delhi, Tehran and Kabul has given land-locked Afghanistan a great new opportunity.
transit route will be established that will run from Iran through Herat in western Afghanistan and Mazar-e Sharif and Sherkhan Bandar in northern Afghanistan to Tajikistan and from there up to China. In its efforts, Iran has a partial upper hand over Pakistan due to its warmer relations with the Central Asian states, particularly with Afghanistan. That Iran is permitting Afghanistan to use the Chabahar port at a substantial discount for port fees, with the exception of oil tankers, aptly reflects the Iran-Afghan relationship.

5) Chabahar and North-South Corridor:

The North-South Corridor permits the transit of goods from ports in India across the Arabian Sea to the southern Iranian ports of Chabahar and Bandar Abbas. There is transit of goods through Iran via rail to Caspian Sea ports of Bandar Anzale and Bandar Amirabad of Iran. From there, the route stretches along the Volga River via Moscow to northern Europe. Analysts indicate that to serve as an alternative cargo route, linkage of Indian products with Russian through the Baltic ports of St. Petersburg and Kotka in Rotterdam or through the Ukrainian Black Sea ports of Illychevsk and Odessa to the Mediterranean, is necessary.

The North-South International Transport Corridor (NSITC) is making strides towards achieving a new framework. The first, NSITC strongly pulls together Russia and India, putting New Delhi in an economic and strategic dependence on Moscow’s policy. Except for a reduction in the Indian export prices, the corridor has transformed this country into a transit state for its Asian neighbours, raising the Indian status in the region. Then secondly, the NSITC comprising India, Russia and Iran is expected to cut the operational costs of Indian
exports and imports (through Iran's route) by about 30 percent ($2,000) per container. The new corridor has the potential to rival the Suez Canal route. The corridor would be open to other countries in addition to the three founding countries of Russia, India and Iran, including other countries of the Caucasus, Central Asia, and Eastern Europe (See Figure 23).
Therefore the NSITC, linking India, Iran, the Central Asian Republics and Russia by road, rail and sea (now under construction) will help reduce the cost of transportation of goods. At the same time, the official NSITC Project must be seen in light of a broader attempt by regional Central Asian countries to create as many trade and transport opportunities as possible. In addition to the following developments in the official North-South Transport Corridor, it will be equally important to track the web of bilateral infrastructure and trade routes that are developing in the region.

The rail link, when completed in Chabahar port, will provide India a multi-modal transport corridor with Russia via Iran, bypassing Pakistan, under UNESCAP's ambitious Trans Asian Railway (TAR) project. The route being planned from Chabahar first connects Fahraj, then goes to Tehran and the port of Amirabad on the Caspian Sea. It reaches Astrakhan port in Russia and then connects Moscow and St Petersburg. Once completed, it would provide Indian goods direct access to Central Asia and Europe from the Mumbai port and is expected to significantly cut the travel time.

Considering India's interest in the development of Chabahar port and the construction of the Chabahar-Fahraj railway line on the North-South corridor of the TAR, Iran has requested India to encourage Indian companies like RITES, IRCON and CONCOR to carry out supplementary studies to ascertain opportunities for viable investments in this project for both sides. The Iranian government also underscores that it will make efforts to provide facilities to involve Indian companies. This link will give India access from Chabahar to the Baltic Sea.
6) Chabahar and regional policy:

The Chabahar port project is Iran's chance to end its US sponsored economic isolation and benefit from the resurgent Indian economy. Along with Bandar Abbas, Chabahar is the Iranian entrepot on the North – South corridor. A strategic partnership has been forged between India, Iran and Russia to establish a multimodal transport link connecting Mumbai with St. Petersburg, providing Europe and the former Soviet republics of Central Asia access to Asia and vice-versa.

Iran seeks to increase its regional influence by focusing attention on its main appeal to the Central Asia republics: a land corridor to the Persian Gulf and the Indian Ocean. Teheran has started construction of several free-trade zones along its northern border. A railway line from its Persian Gulf port of Bandar Abbas joins the national railway network of Bafq which has been completed and has an extension from Mashhad to Sarakhs which completes the link between Iran and Turkmenistan (and the old Soviet rail system). Additionally, a private-sector Iranian company is planning a 1,100 mile railway from the port of Chabahar direct to Sarakhs. Iran uses multinational organizations to defuse anti-Iranian antagonism and share the massive burden of investment. Iran has supported the entry of the Central Asian states into the resurrected ECO, the Non-Aligned Movement, and the Organization of the Islamic Conference (OIC) and the Organization of Caspian Sea Littoral States (also known as the Caspian Sea Cooperation Zone).

In the case of the ECO, for example, Iran works with Turkey and Pakistan, rivals for influence within Central Asia, to provide a framework for supporting economic change, to solicit aid, to coordinate pooling of the investment of funds and to divide responsibility for the massive effort needed to modernize Central Asia. At the summit of 1992, the ECO decided that Turkey would focus on
education, administration and industrial management; Pakistan on transport, communication, banking and services; and Iran would stress on oil and mineral resources.

Iran proposes to support Central Asia from the east of the country because in central Iran road and train traffic is very heavy. The Iranian government wants to support the centre of country and the big city like Tehran. The ports of the west are supporting the west of Iran. In the east Iran can support Central Asia, Afghanistan, Pakistan and also the east of the country (Iran). In this plan Iran is constructing a road from Chabahar port in the southeast to the Afghanistan border and also Iran has roadways from south to the north Tajikistan border. Chabahar port is the best place for supporting Central Asia and Afghanistan because of its geo-strategic location. It lies on the outside of the Persian Gulf, the important centre of oil, and has access to the free waters of the Indian Ocean and also this port can support the whole country in a time of crises.

7) Chabahar and port competition:

Iran plans to use Chabahar for transhipment to Afghanistan and Central Asia while reserving the port of Bandar Abbas as a major hub mainly for trade with Russia and Europe. The greater political stability and security in the Iranian hinterland are the advantages that Chabahar has compared to Gwadar. There is hostility and mistrust that the Pakistani Baluchis hold against the Punjabi dominated Pakistani Federal government. The Baluchis consider Sino-Pak initiative at Gwadar as a strategy from Islamabad to deny the province its deserved share in the development pie. They also look with suspicion on the settlement of more and more non-Baluchis in the port area.
The response of Iran to the Gwadar port has been to construct its own Chabahar Port and tacitly compete with Pakistan in capturing access routes and energy-related trade from Afghanistan, Kazakhstan, Kyrgyzstan and Tajikistan. Stemming from the visit of President Mohammed Khatami in January 2003 to India and the signing of the “Road Map to Strategic Cooperation,” India has agreed to assist Iran in constructing the Chabahar port and road-links between Iran, Afghanistan and northward to Tajikistan. Meanwhile, the Chabahar port has not escaped the notice of Pakistani officials who have stated, “Pakistan is pinning huge hopes on the Gwadar project as the transit point for goods from Russia and the CARs bound for the Gulf and the East, but the Chabahar port would inflict a huge financial setback for Pakistan.”

Both Iran and Pakistan have developed strategies to create strong economic and transport ties with Central Asia and beyond. Anchoring these strategies are two new seaports: Gwadar in Pakistan and Chabahar in Iran. Spreading out from these ports are existing or planned transportation infrastructure that leads into the economic centre of the respective country and importantly northwards to Central Asia. Both ports are well on the way towards becoming fully operative and are offering generous incentives for companies and governments to do business in their ports.

However, serious political, economic and logistical problems remain. For Central Asia one of these two ports, or indeed both, will likely become important links to the world markets. In comparison Chabahar Port stands a better chance of taking a lead.
8) RECOMMENDATIONS:

- A survey of regional views of the Chabahar port suggests that the importance of the port lies in its ability to connect vital Central Asian and Middle Eastern energy sources to world markets, to facilitate trade and to project naval power in the Indian Ocean.

- Constitute a sovereign board of governors, having government and private sector representation, to handle policy matters of the port as well as the establishment of business and industry in the Chabahar city.

- Creating the necessary infrastructures for promoting the prosperity of the East Axis because of the strategic role of Chabahar Port.

- Creating trading and commercial companies based on regional cooperation

- Creating a regional goods depot park.

- Promoting Chabahar Port and changing it into a main centre of transportation and transit as a part of the development of the East Axis.

- Providing the necessary facilities for Central Asian countries and Afghanistan for transportation and transit of goods.

- Designing and constructing tank farms for barter and exchanges, esp. with Central Asia.

- Study and implement gas and oil pipes from Chabahar to Sarakhs along East Axis for the transfer of Central Asian oil and gas.
- Providing fuel, services and peripheral's to vessels passing through the Oman Sea and the Indian Ocean.

- Creating local, national and international credit card terminals.

- 100 percent foreign ownership of industries and services, including land.

- No import/export taxes.

- Unlimited transfer of capital and profits in foreign currency.

- No corporate taxation for a minimum of 15-20 years.

- No personal income tax.

- Abundant inexpensive energy.

- Provision of air/road/rail linkages.

- Cost-effective and skilled labour force.

- High-level technical and administrative support.

- Minimal government intervention, however, full security of the investment.

- Arrangements for Security and Safety.