Chapter Five: The landscape of the pragmatic New Silk Road and the geopolitical Free Trade Zones
Analytical view of geopolitics in free trade zone

Looking at the definition of geopolitics in the theoretical framework, there is a need to analyze the INSTC and forecast and proscribe the political and territorial power that will be exerted over it. There is a need to look at INSTC from the point of geography where it will act as a bridge that spans not only geography, but also be influenced by history and spatial politics.

The multidisciplinary scope of INSTC will be affected by the Free Trade Zone when the international political actors focus on it to create a geopolitical system. The opening of transportation and trade, the connection of Indian Ocean to Europe will promote transit route along the earlier Silk Road for India. It will serve as the shortest and cheapest mode of travel between South Asia and Europe and will be beneficial especially due to it.

The Suez Canal will have a competitor and it will serve to enhance transit movement and reduction in costs in both transit corridors. Taking into account the principles of geopolitics mentioned in the earlier chapters; it is easy to realize that strategic and diplomatic points along the Free Trade Zone will help to reduce tensions between nations. It is necessary to take into account those nations along the Middle East, Central Asian and Caucasus countries who have been in strife over many issues. It is believed that creating economic opportunities and cooperation may lead to treaties and pacts being signed, and the building of security bonds between nations.

Every country along the corridor will strive to create occupational opportunities and economic growth which can lead to peace and security in the regions along the corridor. From the point of view of regionalism, the nations along the corridor must work with earnestness for regional bargaining of economic power and Multinational Corporation and global markets can help deterritorialisation of state power.

The countries of South Asian, Central Asian and Caucasus countries, must work for sustained cooperation, formal and informal among government and non government or private sectors for sustained formal and informal cooperation. There is a need to create political structures and strategies that governments and Business Corporation needs to adhere to make the INSTC a feasible project. All have to act as intermediaries to rise from narrow nationalism to broad globalism.
From times immemorial knowledge and spread of knowledge has been an Indian forte. The accessibility to the best of knowledge because of its advantage in the use of the English language, will aid India to be a forerunner as a change agent in INSTC.

It is well known that Indians are ruling the roost in the Informatics sector in the entire globe so for dissemination of information, consultation and cooperation along the corridor, India has a well designed role.

The Spill-over of knowledge could take place at the base level of the individual participants or at the enterprise level of between entrepreneurs who are specialists in their arena. It can also expand to the global level where India acts as the chief mentor and guide for creation of right level institutions that can withstand the pressures of change that face the peoples who live along the corridor. As India shares much in common with culture and tradition in these regions along the corridor, its role will get more and more clearly delineated.

The societies of the regions along the corridor are like the human body and the function of each area will show up as the area becomes active and prosperous. For healthy interactions between the organs of INSTC, every participant has to show an evolved mindset and willingness to test the functions set down. A very visible and viable framework for integration of communities, their hopes and fears and aspirations, is necessary. This may include the healing process for non state actors to become a part of the mainstream society.

There will be a need for India to be seen as a contemporary who is keen to refute linear assumptions of replacement and displacement with positive issues of sustained developmental and growth policies. The integration will progress only if India extends the hand of a friend who organizes economic interests such that its pressurizes the government, to manage interdependence in a manner where centralized policies and institutions, work to the advantage of the society and its lower rung.

Should India don the garb of a watching big brother or policeman then it will soon become a scapegoat for the internecine politics already rampant in the arena. India needs to pay heed to the fact that regular patterned behavior of people in any society and the values and ideas associated with these regularities are not conscious choices but every essential element for consideration during the process of integration.
There must be an idealistic axiomatic collective action to control vile and negative individual-profit-motivated action and goals India must always bear in mind that formal organized structures reflect not only technical demands and resource dependencies but also they are too embedded in the social and political environment and fabric of the society they exist in. All rules, beliefs and conventions must be built into the wider environment.

Mankind has the power and potential to evolve and benefit one another, but the last 200 years have been wasted in egoistic politics of war and waste. The future world communities must understand that human potential is not to destroy but build and to salute the best that human endeavor can produce. To respect and emulate the best in others and to destroy and disband the evil within, for human progress, depends up on promotion of welfare and not on creation of armaments and warfare.

**Foreign Policy & Economy of India**

Pakistan shares borders with India, Iran, Afghanistan, and China and has a population of approx 170 million. It is one of the most geopolitically important countries in Southwestern Asia. Pakistan with borders along Afghanistan has been involved in the proliferation of nuclear weapons technology. India and Pakistan are two parts of a whole, which became independent from the former British India after World War II. They had armed conflict over the Kashmir territorial issue and other matters (1). The territorial dispute over Kashmir has a chequered history of dialogues repeatedly with ebb and tide of resumption and suspension at the will of each of the countries.

Gwadar, Pakistan, along the Arabian Sea border is a remote Pakistani fishing town, being transformed into a massive deep-sea port to cash in on the inexorable development in the region and aid the Chinese economy. Chinese have funded Gwadar port, and almost 80 percent of 250 million projects for the development of South Asia, Central Asia and the Middle East. China can diversify its crude oil import routes and extend its presence in the Indian Ocean with the help of this port.

Four months after the Entry of U.S. troops into Afghanistan to oust the Taliban regime, China and Pakistan got into partnership for building a Deep Sea Port on the Arabian Sea. An obscure fishing village of Gwadar in Pakistan's western province of
Baluchistan, bordering Afghanistan to the northwest and Iran to the southwest was the chosen site for the port. Nautically Gwadar has strategic boundaries with the Persian Gulf in the west and the Gulf of Oman in the southwest.

Its location at the entrance of the Gulf, about 460 kms from Karachi, affords Gwadar an immense geostrategic significance on many accounts (2). Pakistan is proud of its friendship and cooperation with Islamic countries, and its close relations with China are a countermeasure against India, In October 2008, President Zardari visited China for talks with President Hu Jintao, both leaders arrived at a consensus for a strategic, partnership of higher and beneficial dimensions. Pakistan’ declared its cooperation to the United States and other countries to help counterterrorism efforts after 9/11 terrorist attack. This has borne fruit (3) and the sanctions imposed by the United States on Pakistan as a result of the 1998 nuclear tests have been lifted (4).

The U.S. drone attacks to weed out Osama Bin Laden have fostered deep mutual distrusts between the United States and Pakistan according to reports. The United States had not taken Pakistan into confidence about their intention to implement the operation before they went into the attack mode (5).

India has taken tremendous strides in its economic and social spheres in the past two decades, growing at about 3.5 percent during the 1950s to the 1970s period to expand during the 1980s to an annual growth rate of about 5.5 percent to 6.7 percent during the 1992-93 and 1996-97. Indian grew at rate of 8.2 percent in 2003-04 to surge ahead. The growth projections cited in India’s Tenth Five-Year Plan, have been kept in line. It demanded an increasing growth of around 8 percent for the periods 2002-03 and 2006-07 (India, Planning Commission, and 2002a) (6).

In the 21st century, the knowledge economy will demand a set of new competencies, inclusive not only of ICT skills, but also other such soft skills. The Indians were not found wanting in skill sets such as problem solving, analytical skills, group learning, working in a team-based environment, and effective communications. The requisite to foster such skills was an education system that was open, democratic and flexible. While the basic education provided the foundation for learning, and secondary and tertiary education developed core skills that encourage both creative and critical thought. The need was felt to develop an effective lifelong learning system to provide continuous education and skill upgradation. The work
forces even on completion of formal education, were provided with new skills to enable
competitive sustenance in the new global economy. The Sarva Shiksha Abhiyan or
education for all was initiated in 2001 and promoted as a national program for universal
elementary school. It became a fundamental right of every child by the constitutional
amendment in 2002 (7).

The scientific and technical education arena of India produces almost 200,000
scientists, engineers, and technicians per year. India has been unable utilise this skill
base for the best economic development. The education and the labor market anomalies
are large and mismatched. The migration of qualified professionals to distant land in
search of better opportunities, lead to brain drain.

Advanced technologies in constant flux demand business investment in worker
training to remain competitive. India also needs various job training programs to
withstand global competition and also sustain a system of lifelong learning, which
encompasses education from early childhood through retirement. This plan has to be
inclusive of formal learning (schools), training institutions, and universities, non formal
learning (structured on-the-job training), and informal learning (skills imparted by
elders of the family or community. This is lifelong learning model, keeps people
motivated to upgrade on a continuing basis, and equips them with the skills to engage
in self-directed learning. This plan must envision opportunities for learning
throughout their active lives, with offer of financial and cultural incentives to
participate in lifelong enhancement process.

To code innovate techniques, all countries need institutions, rules, and
procedures. They observe closely how one acquires, creates, disseminates, and uses
knowledge for formation of valid systems. Innovation in a developing country focuses
not only on the domestic development of frontier-based knowledge, but relates also to
the application and use of new and existing knowledge in the local arena. The global
knowledge gets transferred for powerful facilitation of technological change through
channels such as FDI, technology transfer, trade, and technology licences.

India has a valuable position on the global scenario, where its achievements, are
recognised and its tremendous potential that is yet to be unleashed are also
acknowledged. A process of global coordination and integration of the different
reforms can be spearheaded by India. Consolidating and launching of which could
begin with a domestic process of consultation, stakeholder awareness, and buy-in. India can help catalyze an integrated and well-grounded process for global growth.

A subversive pragmatic vision is lacking in India’s traditional foreign policy, Indian policy mouths traditional nationalist slogan while following pragmatist prescriptions. The political differences have narrowed into close relations with the United States. The then foreign Minister S.M. Krishna noted that the chief objective was to ensure a conducive international environment where strategic autonomy would be respected (8). India needs proactive vision to tap opportunities on the foreign shores.

India, at the behest of the U.S. remained passive towards Pakistan over the last decade even though much evidence of Pakistani complicity in terrorism directed at India, was available, as Pakistan was an important ally of the U.S. and its fight against terrorism. That Indian Foreign Policy was being determined by the interest of Washington, is a rumour that is gaining ground (9).

The fear of losing its hard won Independence through manipulated and misguided foreign policy initiatives is the reason why nationalists oppose alliances that seem to subvert Indian interests to those of others. Such alliances can constrain rather than secure objectives. This also feeds the Delhi elite’s enduring suspicion of great powers, like the United States. India has common interests on many particular issues rather than on any one general issue. In global paradigm the reinforced belief is that India can and must play its role with moral right as the conscience-keeper of the world” (10). Often the principles of alternative paradigms such as “comprehensive security” cooperative, multilayered and multilateralised integration are invoked to awaken the Indian consciousness towards its global duty (11).

A streak of moralism colors this opposition to mercenary power politics underlined by reaffirmed, strong and abiding commitment to global nuclear disarmament. Indian commitment to nuclear disarmament is met with some skepticism outside the country since its actions do not match its words.

At the end of the Cold War India’s traditional foreign policy lost its relevance. Indian foreign policy based on ideological perceptions failed to promote the national interests of India. The Indian Pragmatists tend to be skeptical of the UN in general. The Indian foreign policy debates pay no heed to the ‘grammar’ of global power politics.
New Delhi needs to carefully weigh foreign policy assertions and choices for the overall benefits before concluding on cost estimates and assessments.

India needs alignment with neighboring powers. A hostile China does not serve Indian interests though it may get United States and India together. Better military ties with powers other than the United States, such as Russia can prove to be a hedge against any potential armed threat from China (13).

Pragmatists do not support signing the CTBT or initiatives such as the Proliferation Security Initiative. They suggest that India work to lay the groundwork for the Fissile Material Control Treaty (FMCT) (14). A decision on the required amount of fissile material and the mode of acquisition should be transparent. Its stand on Iran, its disputes with the United States and the international community vis-à-vis the nuclear issues, are foreign policy concerns that need attention. Indian dismissal of U.S. claims that Iran seeks nuclear weapons from Russia and support for the Iranian right to develop civilian nuclear technology are all bones of contention in foreign policies (15). Iran as “a neighbor with which India is linked by many centuries of economic, cultural and even civilizational ties” cannot be overlooked but when Iran goes shopping to the Pakistani nuclear black market for goods, it can embarrass India (16).

The nationalist perceive the U.S. pressure on Indian foreign policy, as a manifestation of its high handedness. The U.S embargo on the stillborn Iran-Pakistan-India gas pipeline project was a sheer monopolistic stance. Thus Indian Iran policy will become an important test of whether Indian foreign policy is veritably independent of the United States pressure. The government is often criticized because New Delhi kowtows to Washington on the Iran issue and other issues of economic interest to India (17).

India was forced to take a position against the Iranian nuclear program. It voted against Iran at the International Atomic Energy Agency (IAEA). It appears that the Third World and NAM have lost their significance for Indian foreign policy framework but in reality NAM and third-world solidarity is very essential for India. The BRIC (Brazil-Russia-India-China), and BASIC (Brazil-South Africa-India-China), actively carry forward the development of the third-world unity which the NAM proudly undertook during the period of Cold War (18). India foreign policy can get marginalized by short-sighted disagreement and leave less options for India to act
globally. So India foreign policy with essentially centrist perspectives must be a balanced one that has weighed all its options not a knee-jerk exercise of choices.

**Free trade and special economic zones in Iran a significant player in INSTC (Challenges and Opportunities an Indian viewpoint)**

In the 1970s with the development of Kish Island as a potential flagship free trade zone in the Persian Gulf, Iran first advocated its interest in these matters. ‘Free Trade Industrial Zones’ (FTZS, hereafter) in the two Gulf Island of Kish and Qeshm in the south, were first announced with a third one in Chahbahar (also in the south but on the littoral of sea of Oman). Later three FTZs were established: two in the north in (Aras and Anzali) they had proximity to the CIS states, yet another (Arvand) in the south, came up. It had borders with Iraq and Kuwait. Consequent to this initiative 15 ‘special Economic Zones’ were set up to act as magnets for the attraction of Foreign Direct Investment (FDI) and generate a diversified industrial base which would promote the non-oil exports of Iran.

It is the growing regional competition for foreign capital that puts Iranian zones at a disadvantage, for often the zonal policies are at odds with those in the mainland. This is a consistent signal that its strategic potential as a major regional powerhouse can get hampered by myopic policies.

There is fear that preferential arrangements to trap FDI in special zones may yield no fruit consequent to the signing of the Multifibre Arrangement (MFA) in 2004 (19). EPZs limit their local benefits by local purchase of raw material but have to bear the brunt of the cost of poor technology being transferred which cannot be readily replaced and the knowledge for which has to be purchased too (20).

Many developing countries, in the zones are seen as practical mechanism for their foray into the international arena. World Bank thinks EPZs are second-best solution for country-wide reforms (21). For Iran the Free, Trade-Industrial Zones came into existence with the primary and principal objective of reducing its economic downturn. The foreign direct and domestic investment to boost manufacturing, and exports was badly needed then the location of these areas with good, strategic links with major waterways and key regional markets helped Iran to diversify its non-oil exports and develop its economy.
With increased global competition and the proliferation of free zones around the world. All six Free Trade Zones gave Iran direct access to international waterways through the common international borders, of Kish and Qeshm Islands which are strategically located in the Persian Gulf.

Chahbahar gives direct access to the Sea of Oman and Anzali gives access to the Caspian Sea. The FTZs with good access to major air, sea and land transportation routes at the local, regional, and international levels, are in the proximity of regional markets. From the oriental perspective too, Iran located on the old Silk Road with various free trade zones has the potential to become the veritable instrument for change.

The employment and labour laws that are applied in the FTZs tend to be generally more flexible and less detailed than Iran’s Labour Code, with its stern suspension or termination of employment contractual terms where the remuneration or working conditions for vulnerable groups, such as women and youth are prescriptive. In principle, a flexible labour market with a prompt hire and fire-policy works in the zones than in the mainland. The dismissal of an employee is accepted subject to the judgment of the Board of Settlement of disputes in case disputes flare up (22).

It has been observed that governmental costs for augmented development of the zone are getting incremental, with the addition of not entailed cost which is recovered through service charges and assessments (23). At first imports outstripped the staggering ratio of imports/exports by 44:1. These gap has declined to 10:1 in the more recent years. The total exports from Kish and Qeshm islands, are not even 1% of the non-oil exports of Iran taken together (24).

The origins and destination of air passengers were studied and it showed that about two-thirds of all domestic passengers preferred Tehran (68%), followed by Shiraz, Isfahan and Mashhad (each with 7-9% each) for their domestic flights. The International passengers chose Dubai which commands 80% of all, Sharjah (18%) and Abu Dhabi (2%). The volume of air passengers from the UAE is an indicator of bristling travel trade with the neighboring UAE. Iran’s free zones act as special havens that draw capital investment and spearhead Iranian quest for economic diversification.

The free trade zones around the world reveal, that to experience the hallmark of exponential success, they must powerfully exploit geographical advantage with attractive business friendly environments that promote inward investment. Two factors
however, hamper a just evaluation of the performance of the zones and import factor of Iran. Their relative history is pretty recent with paucity of relevant historical information. The free zones of Iran face two sets of challenges which emanate from the design and operation of the zones themselves at first. The second in relation to the broader macro picture, the economic policies and business climate in the mainland, are not compatible for regional competition that ensures the best outcomes.

The capacity of the zones to attract investment is bound by limitation that creates adverse external perceptions of Iran. It has always pursued a largely isolated course in the international economic arena. This attitude is considered inimical to foreign private investment. The Iranian government has some pro-business policies for the zones, but they risk a lack of credibility and therefore reflect why Iranian has general difficulty in attracting FDI.

The other regional economic power such as Saudi Arabia, with determined economic reforms initiatives have set up major economic cities in recent years. S also Turkey, which has old links with Europe, both pose tough competition for Iran as they grow in importance (25).

Table 5: Iran’s Free Trade-Industrial Zones

<table>
<thead>
<tr>
<th>FTZ</th>
<th>Area (ha)</th>
<th>Location in Iran</th>
<th>International Proximity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chabahar</td>
<td>140</td>
<td>Southeast</td>
<td>GCC states and Oman Sea</td>
</tr>
<tr>
<td>Anzali</td>
<td>3200</td>
<td>North (Caspian Sea)</td>
<td>Central Asian states, Caucasus and east Europe</td>
</tr>
</tbody>
</table>

Source: Iran’s Free Trade-Industrial Secretariat website, http://www.freezones.ir

Free trade zones of INSTC will serve as backdoors for India to reach Central Asia and Caucasus Countries

For India, Iran becomes as a backdoor to Central Asia because the Iranian approach is contradictory and ambivalent with regard to general international economic integration. The location zones of the destination with internal complexities discourage any investment or attraction of investment.
The idea of Kish Island as a flagship free trade zone in the Persian Gulf was first mooted during the economic reconstruction under way in the late 1980s, after the war with Iraq; concrete steps were taken – under the auspices of the First Five-Year Development Plan (1989-93). Kish and Qeshm – in the south were islands situated in the Persian Gulf, while – Chahbahar – was the littoral of the Sea of Oman. Aras and Anzali in the north were close to CIS states and Arvand in the south bordered Iraq and Kuwait. Their strategic location led to their selection for development to as FTZ.

The FTZs are an ambitious concept that they principally aim to attract Foreign Direct Investment (FDI) and ultimately generate a diversified industrial base for Iran to carry out its non-oil exports. Iran to-date faces major difficulties in estimating the performances and output of its zones.

Iran’s “experiment” with the free zone phenomenon has been undermined by lack of improvement in the wider business climate of the country as well as a continued ambivalence towards Iranian participation in the international economy and other compulsions. The irrelevant and obscure policies pursued in the zones, obstruct and disadvantage the potential of the zones.

For countries with a high incidence of unemployment, these zones constitute opportunities for job creation and reduction of unemployment in both the regional and national contexts. A partial route to necessary reforms and liberation came when the zones were set-up (26).

Today, free zones of many developing counties seem to be pragmatic mechanisms for broad based links with the international economy. A high Council set up in 1992, was empowered to regulate, supervise and manage and operate the zones. The onerous responsibility was vested in it. The Council had power to devise and ratify the laws and regulations which would govern the operation of free zone. By the end of 1993s all three zones were completely well established. Two of the newly established zones-Aras and Anzali-were located to the north of Iran.

Iran in the post-revolutionary period stood isolated and was ravaged by the Iraq war. During this harsh decade of the 1980s, these zones provided attractive “back doors” to the global economy. The war years had their impact on an economy. The lack of imported consumer goods, industrial inputs and intermediate products slowly caved in a flourishing economy. That had been the primary objective of the war.
Table 6: Iran’s FIZs

<table>
<thead>
<tr>
<th></th>
<th>Established</th>
<th>Area</th>
<th>Location</th>
<th>Nearby Countries</th>
<th>International Borders</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Kish</td>
<td>1989</td>
<td>91 sq.km</td>
<td>Persian Gulf</td>
<td>GCC states</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gulf waterways</td>
</tr>
<tr>
<td>2.</td>
<td>Qeshm</td>
<td>1990</td>
<td>480 sq.km</td>
<td>Strait of Hormuz</td>
<td>GCC states</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gulf waterways</td>
</tr>
<tr>
<td>3.</td>
<td>Chahbahar</td>
<td>1991</td>
<td>140 ha</td>
<td>Southeast</td>
<td>Pakistan, Oman Other</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>GCC states</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Oman Sea waterways</td>
</tr>
<tr>
<td>4.</td>
<td>Aras</td>
<td>2003</td>
<td>97 sq.km</td>
<td>Northwest</td>
<td>Azerbaijan, America</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Nakhchivan</td>
</tr>
<tr>
<td>5.</td>
<td>Anzali</td>
<td>2003</td>
<td>3,200 ha</td>
<td>North Caspian Sea</td>
<td>CIS, Caucasus</td>
</tr>
<tr>
<td>6.</td>
<td>Arvand</td>
<td>2004</td>
<td>173 sq.km</td>
<td>Southwest</td>
<td>GCC states</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Iraq &amp; Kuwait</td>
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</tbody>
</table>

Source: Compiled from Iran’s Centre for Free and Special Economic Zones website: http://www.freezone.ir/

The articulation in favour of FTZs potential looked at their contribution to address the endemic economic problems of Iran like widespread capital shortages, low productivity, run-down public resources, and highly limited non-oil exports, low levels of technology and outdated management skills and practices.
The zones could potently alleviate the Iranian demand for imports; the initial zones were selected principally because they provided good access to International waterways of Iran in the south and acted as gateways to the wider international community. During the oil boom of 1970, various industrial units faced delays and expenses in sourcing inputs and intermediate products from abroad. Several special facilities at Tehran’s Customs Office were setup to facilitate the import and storage of such goods and address the industrial shortage.

The zones on the shorelines were supervised by the Ports and Shipping Organization. The first SEZ was established in Sirjan in 1992 in Kerman province, to the north of Bandar Abbas was officially declared on a “protected customs area”. A second zone in Sarakhs on the old silk route that connects the northeastern provience of Khorasan of Iran to the Central Asian states through a newly-established railway line (Mashad-Sarakhs-Tajan). The third zone came up at the port of Aanzali, the fourth one developed existing FTZ area of Qeshm. It became a trend to establish news zones with “special themes”, such as a petrochemicals zone in Bandar Khomeini, followed by an energy SEZ (oil and gas) in Pars (1998), a mining zone in Lorestan (1999), an electronics zone in Yazd (1997) and a shipping zone in Bushhr. Currently Iran has a total of 16 SEZs.

The physical size of Iran presents logistical problems for the supply and distribution of imported inputs and intermediate products. Then SEZs facilitate transit of imported goods, improve the industrial inventory system to generate income and revenues for the SEZ authorities and create several local jobs. The law in operation requires that, all plans for the establishment of new zones and their boundaries are subject to approval by the Government and verification by the Islamic Consultative Assembly (27).

The appointment the Managing Director, who is also ex-officio Chairman of the Board, is vested with the President of the Republic, who chooses from amongst the members of the Board of Directors. The board is the highest executive authority in the economic affairs and infrastructure of a zone. The chairman of the high council is the president with other members who include the Ministers and the Secretary of the High Council of Free Trade-Industrial Zones (28).
The administration of the Council is done by the secretariat under the stewardship of a Secretary appointed by President of the Republic. In Iran, too, the race for the establishment of free zones has seen the introduction of numerous incentives that promote business and attract FDI into certain designated areas. Iran looks to India to overcome its political isolation from the world. India, in turn, will expect free access to Central Asian regions. Thus mutually India will get backdoor entry to many region of Central Asia and be able to influence a positive avenue for growth and mutual development. Where the closed door countries open up their vistas to the winds of positive change, perhaps the globe can leave a sigh of relief.

Table 7: Imports and Exports- Iran’s FTZs 1993-2004 (million $)

<table>
<thead>
<tr>
<th>Chabahar</th>
<th></th>
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<tbody>
<tr>
<td>Imports</td>
<td>Exports</td>
</tr>
<tr>
<td>100.00</td>
<td>0.06</td>
</tr>
<tr>
<td>102.3</td>
<td>0.30</td>
</tr>
<tr>
<td>78.8</td>
<td>0.20</td>
</tr>
<tr>
<td>105.3</td>
<td>0.20</td>
</tr>
<tr>
<td>381.4</td>
<td>0.76</td>
</tr>
</tbody>
</table>

Source: Gozaresh-e Amalkard-e Manategh-e Azad (A Report on the performance of FTZs), Secretariat of the High Council of the Free Trade-Industrial Zones (Tehran, 1380 and 1383)

**Persian Gulf & Caspian Sea**

Free trade zone dot the Persian Gulf littoral, the islands of Kish and Qeshm in Iran are near the 21-mile-wide Straits of Hormuz and Chabahar is with direct access to the Sea of Oman and Anzali is on the Caspian Sea. They are “new” circuits for socio-economic foundation of the Persian Gulf and Caspian Sea. Free trade zones are geographically demarcated areas where taxes and regulations are waived completely or for a short period of time by the government.

States establish these zones with liberal financial and legal frameworks to encourage industries create jobs and promote foreign investment for export-oriented production, and the transfer of skills. Free trade zones are akin to free ports of the earlier centuries like (e.g. Singapore, Hamburg, Hong Kong, Copenhagen, and Aden)
the United States and other Western countries since the 1940s have established such zones.

Free trade zones act as useful mechanism for cyclical rounds of de-territorialisation and re-territorialisation. They can address the need for proper utilization of over accumulated capital. They invoke political, diplomatic rights defined and military duties required by the territorially defined entity to assert its interests and accumulate power in its own right (29).

The tandem of capital accumulation and the state actors have rightful agency only if they have a capitalist core. The dynamic variation in capital accumulation becomes evident in the Persian Gulf, Gulf of Oman and Caspian Sea region which are geostrategic locations. The systems that the Middle East and Persian Gulf regional states use are in part, a byproduct of British methods used during colonial conquest to establish imperial presence in the Persian Gulf when forced to retreat from South Asia after the Suez debacle.

The small Gulf principalities still dispute over, Saudi Arabia territories, Iraq, and Iran have unresolved issues carrying well into the late twentieth century. The need for building states with political authority over a territory and population has been simultaneous with the rise of modern global capitalism. The geostrategic struggles and conflicts over territories, ports, and commercial systems, help the great powers to justify their interventions in the name of preserving security and thwarting “Piracy” by rogue states, and terror networks.

The geostrategic prominence fuels the climate for real and perceived threats for regime survival, and the territorial integrity of the state persisting since historical times in the Persian Gulf and Caspian Sea. Transnational integration and political conflict are by-products. The highly illiberal and imperial use of power led to unwieldy transnational integration and political conflict.

The presence of a sole global great power has influenced the social, political, and economic dynamics of this region. The British domination of Persian Gulf and Gulf of Oman affairs was through the East India Company, the Royal Navy, and Trucial Oman Scouts. The early nineteenth century saw the Persian Gulf and Gulf of Oman become part of the system of informal worldwide empire of Britain.
These regions are oil producers, vested with power to reconfigure the relationship between capitalistic and territorial logic. The world petroleum market must have sovereignty over oil-rich territory and state livelihood. The states could have an interest in land which is independent of its value as a factor of production. Territory with intrinsic value provides resources for capital, Strategic depth, buffers or bridges to other more important areas. The two cannot be set apart in water-tight compartments (30).

In the Persian Gulf and Caspian Sea, all of these factors gain prominence as they induce conflicts which involve both states of the region and outside it. The Caspian Sea and Persian Gulf have free trade zones that intersect with new patterns that pay scant attention to state sovereignty, regional security, and global capital accumulation.

The Persian Gulf and Gulf of Oman have a long trading history. The Arabian Peninsula, Iranian plateau, and Tigris-Euphrates River and the Indian Ocean get connected by trade, commerce and distribution of credit in a rich social milieu of kinship networks, religious lineages and imperial processes. The waterways and littoral lands act as bridges between Asia, Africa, and Europe. The Persian Gulf always worked as a vehicle, for socioeconomic intercourse and imperial expansion. It never was a barrier to development.

**Free trade zones in Gulf of Oman & Caspian Sea**

The Free trade zones help retarded economies to diversify, into export manufactured goods, attract foreign investment and knowledge and participate in the world economy. A requisite for free trade zones involves attracting foreign and domestic private investment to generate employment, stimulate exports. It also calls for raw materials, agricultural goods, and developed human capital for the transfer of managerial and technical skills.

In reality the associated neoliberal reforms, may lead to the weakening of the power of the state, over its territory, population, and economic policy making. Iranian zones are logical offshoots of state formation under specific geostrategic conditions. There is not much of an economic calculus Land as a factor of production, is also territory and an essentially constitutive component of state sovereignty. This fact cannot ever be overlooked.
Free trade zones show power over territory when regional security is in flux due to American ‘liberal hegemony’ in the Persian Gulf and Caspian Sea. Free trade zones select specific means to forge and incorporate global and regional circuits of rent that maintain exclusivity. Territorial sovereignty, Free trade zones are a form of sovereignty assets to help inscribe mental geographies. The internal and external compulsions for creating free trade zones are:

a) They help maintain the de facto domestic sovereignty.

b) Some new modes of capital accumulation without disruption of the socio-political hierarchies and ruling coalition’s in existence are also required.

c) Free trade zones are indigenous answers to combine local and global imperatives.

**Free trade zones and the transnational networks have transformed the Persian Gulf and Caspian Sea**

The intersection of energy interests have transpired at diverse locations, individuals, coalitions, collectivities and world politics. The transnational flow between operations is a consequence of its geostrategic location. The demographic, socioeconomic, and political dimensions, in free trade zones are significantly different. Iran uses zoning mechanisms as a strategy to address the shifting geopolitical and regional rivalries. The transformation of its southern frontier into a border helped Iran to project a powerful image.

The Caspian Sea with its rich social histories is called regularly to play a significance commercial role in entanglements and imperial ambitions of European regional powers. Anzali rarely finds mention in books or travelogues as it never was a highly populated center.

The populace migrated from Chabahar and other small towns and port cities in the southern province of Sistan & Baluchistan. There were several reasons for this, but principal one was the Iranian central government efforts to regulate the pearling industry and control commercial tax activities in the southern Iranian Ports. The post-war ‘Reconstruction Crusade (Jihad) initiated by President Ali Akbar Hashemi-
Rafsanjani saw the creation of free trade zones to dismantle the state-regulated war economy. A regime congenial to private sector interests and foreign investment was considered a fit replacement.

The Persian Gulf, straits of Hormuz and Gulf of Oman are strategic for Iranian economic and territorial security. There is a 1,200 Km coastline through which almost all of its trade, including its oil exports go via the Straits of Hormuz. It is critical for Iranian increasingly oil-dependent economy that the control of the straits and its narrow shipping lanes should vest with it.

The mainland with the relatively high tariffs and import regulations offered. Kish, Qeshm and to a lesser extent Chahbahar privileged positions in Iranian political economy they became geographic and economic fulcrums for growth. The free trade zones in the southern Gulf of Iran currently are a tacit alliance between state officials, members of the military and cross-border traders. This is coalition is inconducive to economic growth, egalitarian re-distribution of resources, or democratization (31).
Reference and Notes for Chapter Five

1. See: India and Pakistan have adopted greatly different posits for resolution the Kashmir territorial issue. India claims Kashmir is its territory based on a document of accession from the Maharaja of Kashmir to India. Within Pakistan believes that the territorial claims over Kashmir should be the framework of a referendum in accordance with the U.N. Resolution.


3. See: Pakistan supports the United States and other countries in their war against terror. The logistical support for the U.S. operations against Afghanistan and the attempts to wipe out terrorists from the border regions of Afghanistan has Pakistan help. Also, Pakistan sent warships for naval operations in the India Ocean in April 2004. The United States designated the country as a Major Non-NATO Ally and appreciated the Pakistan support.

4. See: At that time, the sanctions had been imposed on India by the United States and other countries for its nuclear tests these were lifted too.

5. See: On May 3, 2011, Leon E. Panetta, Director of CIA, acknowledged in an interview that the United States had with help from Pakistan its intended action on the most wanted terrorist because it feared Pakistan would tip off the target. Pakistan Prime Minister Gilani had stated that the U.S. forces operations in Pakistan were an infringement of the Sovereignty Pakistan on 6th May. On the other hand, Both Secretary of State Clinton and Joint Chief of Staff Admiral Mullen visited Pakistan for a meeting with President Zardari and Prime Minister Gilani. The apparent reason was to improve relations.


19. See: Since 2001, there was an accelerated trend. This was an acceleration of a trend which had started since 2001. The male employment reduced from over 30,000 to 24,000 (21%), between 2001-2005. The female employment too declined more substantially, from 61,000 to just over 41,000 (33%), (October, 2008). PP.16-17.


22. See: If the judgment is unacceptable than the employer 14 In case it is not judged acceptable, the employer shall have an can reinstatement the worker and pay him/her the forgone salary and wages, or compensation for 45 days of each year of his/her service. See http://www.freezones.ir/docs/regulation /ftz 13.pdf for a Farsi version of the “Regulation of Employment of Human Resources, Insurances and Social Security in the Free trade –Industrial Zone”.

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27. See: There is exemption from state laws and general regulations decreed by the government for this Authority and its affiliates and subsidiaries. The Commercial Code shall govern these companies.


Conclusion

The rationale for policies associated with stability and control within a perceived sphere of influence could be regionalism where regional policies create regional benefits. An equitable share of those benefits must rest with the members. Regionalism becomes the mechanism for installation of new institutions which transcend the nation-state and transcend the notion of economic power and economies of scale.

An exclusive framework for the integration of communities beyond territorial boundaries is required to incorporate non-state actors in an international cooperative institution. This is referred to as neofunctional Theory. The concept and phenomenon underlined in the formation of European Union.

Iran is the fourth largest oil producer in the world has (the second largest in OPEC). Its natural gas reserves account for 15 percent of the total-reserves of the world. It is second to Russia to hold such reserves. With its rich culture and history of an ancient civilization, it offers unique tourist attractions that enhance its potential as an important gateway between the “East and West.” Iran can potentially be an attractive hub for regional business and commerce. Where better external relations, internal political and macroeconomic stability, and greater consistency work to attract foreign investment too. Thus Iran enables itself to overcome tough regional competition and emerge as a winner.

No doubt Iran commands much economic and geo-political significance in the Middle East and has immense importance in international arena. Iran holds the geographical, economic and strategic advantage to create regional stability and security. Iran has been anything but successful: in this area, its free zones failed in the achievement of their principal stated objectives of attracting foreign direct investment, diversifying the economy and contributing to employment creation.

The unsuccessful experience with free zones is at odds with Iran’s greater potential to emerge as a center of regional and international importance by overcoming its limitations. Iran also holds great geographic and geopolitical significance in the Caspian Sea and the Persian Gulf contexts and benefits from rich natural human resources. The Persian Gulf has an inevitable and intractable link with the commercial and political rivalries of the West maritime powers.
The geostrategic conditions between the global and the state must make alliances, flows, and mental geographies not only possible but also inevitable. The State elites and private capitalists obfuscate the multiple logic and scales at work in global linkages. A bit of lowering in postures would bode well for the region.

The official INSTC project must be seen in light of a broader attempt by regional Central Asian countries for the creation of as wide a trade and transport network opportunity as possible. It mirrors and replicates the continually evolving system of multiple routes and relationships existent in the historic Silk Road. INSTC will track the web of bilateral infrastructure and trade routes development in the region. No doubt the implementation of the INSTC will bring obvious benefits to participating countries and all countries along the route.

Russia, as the most powerful country in this channel, has a major role. It is one of the most developed countries in the world and one of the most influential players of the Central Asia, and Caucasus countries which will form the North South Transport Corridor. The Astrakhan transport hub is an important location in the INSTC. Russia wants and must be permitted a coherent role in Caspian Sea geopolitics but it must move with caution and care to ensure both peace and stability. At the present Russia for transport of goods to South Asia, uses the export route through the Suez Canal where extra tax and tariff cause loss to Russia; it is dissatisfied by this situation. But must tackle the situation with great tact and diplomacy.

India-Russia cooperation is at the root of the Central Asian states economic development. India-Russia cooperation in the development activities of Central Asia will get accelerated as the landlocked countries find access to the external developed world. In this regard, the North-south Corridor connecting St. Petersburg with Mumbai is the best option and gains prominence. The corridor with a combination of sea, rail, and road planned in 2000 had Russia, Iran, and India. Iran and India have an explicit interest in advancing commercial and energy ties for mutual benefit.

India must move proactively to persuade its Iranian friends that the best interests of all lies in finding a way out of the current impasse. Its trump card is its easy access to Iran. It must trumpet this access to Western friends and allies who are concerned about Iran’s nuclear proliferation. A future U.S. Iranian rapprochement
could be facilitated by India if India is able to convince the U.S and its allies the much of Iranian foreign policy is mere posturing.

A smooth relationship between India-Iran-Central Asia could create linkages which could transform the face of trade in the region. India will need to increase its hydrocarbon energy import dramatically. Indian needs to pursue a persuasive and geo-strategic relation with the CSR where a certain anomaly in distribution is in the offing where India could arbitrate on behalf of Iran for just distribution of sea wealth.

The Indian Ocean sea routes and international waters for the transit of their goods to Central Europe, Northern Europe, and Russia are used by merchants to transfer goods. They travel through Indian Ocean, Oman Sea, Gulf of Aden, Red Sea and Suez Channel to reach the Mediterranean Sea. For Goods whose final destination is south of Russia and Ukraine, can travel through Black Sea and Udisa port. The goods headed to Northern Europe and Northern Russia will pass through Gibraltar, Atlantic Ocean, Manche Sea, and Baltic Sea and then transfer to North of Europe, Helsinki, or the St. Petersburg port. This transit route for goods for trade between Indian Ocean and countries in the region to north of Europe, is expensive and time consuming.

The United States and the European Union are aware of the importance of countries of the Caucasus and central Asia in the development of East-West and the need for energy and link transport routes between Asia and Europe. The requisite development of North – South transport routes linking markets in South Asia with Europe via Iran and Russia is a long felt need, and further to restore the historic trade of conventional commodities between South Asia and Europe.

Free trade zones are increasingly popular in both developed and developing countries as a policy instrument that enhance and promote export-oriented foreign direct investment. A FTZ can act as a driver that opens up the spread of economic, reforms to the rest of the host country and become an import tool for diversification. Free trade has a role in generation of technological transfer, knowledge spillover and production of non-traditional goods by local companies. The FTZs generally possess good access to major air, sea and land transportation routes at the local, regional and international levels.

The proximity to the regional markets facilitates importation of raw materials and intermediate or manufactured goods and provides easy access to the local and
neighboring markets—principally those of the CIS and Central Asia in the north and the Persian Gulf and the GCC states in the south. The decentralized system of governance adopted by SEZ makes each subject to different rules and regulations of the Ministry under which it is set up. It is the macro level factors that pose more serious challenges for the success of the zones.

The Chabahar free trade zone in Iran helped the Iranian state to project territorial sovereignty in turbulent geostrategic settings and circulate rent to domestic and international members of ruling coalitions through nodal agencies.

Special advantages of Chabahar FTZ and its Strategic geographical position close to the international waters need not be emphasized. It is the single commercial Iranian port out of the Strait of Hormoz. The port of Chabahar in the southeast corner of Iran, (eyed by India to win it access to Central Asia and Afghanistan) is barely 72km from Pakistan’s deep-water Gwadar port which China has built to secure its energy supplies.

The all-weather Gwadar port that the Chinese have built on Pakistan’s Balochistan coast, gives China access to the Indian Ocean where India has long been the main player, along with the United States. Gwadar Port is just 400 kilometres from the Strait of Hormuz, from which nearly 40% of the world’s oil supply and 60% of Chinese oil supply flows (1).

The Indian officials need the Iranians to expedite work on the Chabahar port facilities to handle specialized cargoes, warehouses and proper disembarkation arrangements to gain ground as a trading hub. Indian engineers braved militant attacks to build a 200km-long road from Nimroz province in Afghanistan to the Chabahar port, the landlocked Afghanistan got an alternative supply route that reduced its dependence on trucking goods through Pakistan (2).

Geographical Advantage of Anzali FTZ cannot be undermined. It is adjacent to ports of Astrakhan & Lagan in Russia, Kerasnodesk in Turkmenistan, Aktau in Kazakhstan and Baku in Azerbaijan. With good access roads to the consumption markets of C.I.S countries and the Proximity to the largest oil and gas reserves of the Caspian Sea, gives it an added advantage.

Chabahar has direct access to the Sea of Oman and Anzali on the Caspian Sea. All FTZs have good access to major air, sea and land transportation routes at the local,
regional, and international levels, with proximity to regional markets. From an oriented perspective too, Iran located on the old Silk Road with various free trade zone can potentially play a role in this direction of trade and traffic. Anzali can become an alternative in case of war or attacks on Chabahar.

The countries in the Caucasus region, Central Asia, Iran and Turkey have undertaken projects to develop efficient trade routes, with well-developed intermodal facilities. These initiatives gain prominence in view of the number of landlocked countries in the region. Russia has already constructed a container terminal at Ol’ ia and Makhachkala on the Caspian Sea.

Reterritorialisation via free trade zone helps Iranian states to project their external sovereignty and the security concerns sometimes. Free trade zones perform poorly as the choice of location of these public zones was dictated by political rather than economic considerations. Free trade zones reveal the desire of elite coalitions to engage the world economy in a manner that blends particular political concerns and economic objectives.

The INSTC could provide the new map for transport flows that will influence both geopolitics and geo-economics. For just this reason, the participating countries should accelerate its implementation process. As the shortest, cheapest and most suitable route for trade between Asia and Europe it has an unenviable significance. The INSTC will serve as the shortest and cheapest route for countries of south Asia (especially for India) to connect with Europe. In comparison with other route by the Suez Canal, this route offers the advantage of reduced costs by 30% and distance by 40%. The travel time will be between 17 to 22 days. On this basis, the total cost of transfer of goods through this route will decrease.

The delivery time by the use of the International North-South Transport Corridor will be reduced anywhere from 10-20 days, and the cost per container will decrease by $400-$500. The revived route is expected to offer both quicker and cheaper transportation than the primary alternative route where the shipment of goods takes place from South Asia through the Mediterranean and Suez Canal and then into the Atlantic and North Sea to Baltic ports. For India with security problems with Pakistan and Afghanistan still an insecure country the INSTC could provide the safest
way for transition of Indian energy needs. It is imperative that India needs to increase its primary energy supply.

India shares common features with major developed countries including Japan in terms of fundamental values and systems, such as liberalism, democracy and a market economy. The new trend in Indian economic and trade policy believes in overlapping bilateral and regional trade agreements. The time is right for India to assert its transition to a knowledge economy that creates, disseminates, and uses knowledge to enhance its growth and development.

When the landlocked countries of Central Asia and the Caucasus region other sections in the corridor that can access the Chabahar FTZ, and the port of Bandar Abbas in the Iran. Open up it will strengthen Indian position in Central Asia, and will lessen the economic isolation of Central Asia. It will help Central Asian states to rationalize energy trade. Indian access to Central Asian states through the INSTC will enable it to meet its energy requirements and ensure its energy security. A new system of barter may yet emerge.

With the linking of the Indian commercial capital of Mumbai with the Iranian ports of Chabahar and Bandar Abbas by maritime transports, the North-South Corridor will become viable for transport and will then rely on road and rail networks to connect, Chabahar port and Bandar Abbas with Central Asia and Afghanistan. In fact, Iran with land links to Central Asia, and ports that offer warm-water sea routes to India offer the best bet for international linkages. (3).

The Indian interest on the CSR is based on its energy need, security concerns and for balance with the powerful China. India is being roped in with the bait of recognition as a Great Nation global affairs in return for acquiescing in the role of creating an Asian balance vis-à-vis an emerging powerful China. Washington may exploit the undercurrent of suspicion in the Sino-Russia relations. Such suspicions do more harm than good to geopolitical advancement (4).

The fast growing Indian economy puts weight on energy rich Iran, as geographically, Iran not only sits on Hurmoz check point in the Persian Gulf but also has direct access to both land masses of East and West energy rich CSR. Thus Iran becomes the fulcrum for Indian energy needs.
Geographically, Iran provides the best route for Indian export and energy import. The other three options of land routes are through its historical neighbors, China and Pakistan. The instable Afghanistan offers no help to India. So Chahbahar, with direct access to the Sea of Oman and Anzali on the Caspian Sea will help India access both sides of the Caspian Sea through the Persian Gulf rail and road network. Iran is the only country which has direct access to both Western and Eastern sides of the Caspian Sea. Chabahar free trade zones offer principally good access to Iran’s International waterways in the south act as gateways to the wider international economy.

Iran has prime value in Indian geopolitical calculation the context is more regional than global. It is inevitable for India to maintain close ties with Iran. As the emergence of the INSTC will require the construction of additional FTZ facilities in this region and the boosting of FTZ capacities will become the measures for arrangement and development of the INSTC. This will have a tremendous economic, political and strategic significance for India. Geopolitically FTZs, demand the international corridor of this order to act as a bridge between the East and the West. It will strengthen cultural and historic ties between Asia & Europe. The INSTC has the mission of bridging the two continents. All FTZ on the INSTC will acts as columns of this bridge.

As the Caspian Sea and Persian Gulf free trade zones intersect with new patterns of state sovereignty, regional security, and global capital accumulation, the emergence of Chabahar free trade zone in Gulf of Oman and Anzali free trade zone in Caspian Sea, will reinforce that the territorial locality of a state is an essential factor behind re-territorialisation.

A look at Asian shipping movement along the INSTC bears out that Free Zones and ports are geopolitically, well-positioned for global commerce. In addition, passing through INSTC is almost 5000 km shorter than the former route through the Suez channel. Presently, it is a leading International shipping course between India and Central Asian, Caucasus Countries, Russian Federation and Europe. In the era of globalization, it is economy which makes States get closer to each other, it is necessary for India to capitalize on opportunities for investment in the Central Asian, and Caucasus Countries and gain access to their markets too.
Free Zone will aid all the countries along the corridor to get access for investment in each other markets. Free zones on this route are a medium for trade and transport, without any imposed tariffs and taxes. From strategic and diplomatic outlook, this corridor can help reduce political tensions between two countries, through usage of staunch models of cooperation and convergence.

By creating economic opportunities and cooperation, more trade pacts will be signed and security bounds between two countries will be enhanced. Each country along this corridor will create occupational opportunities and economic growth for its populace to live in peace and security with reduced political tensions between countries in the comity of nations. Some social scientists feel that these attempts should be step by step and gradual where a political and economic cooperation theory with high degree of tolerance and deterrence is put into play.

The created economic opportunities and cooperation can only enhance trade pacts and security bonds between two countries bound by geography.

It is important to pay heed to the small discontent in regional strife lest they become hydra-headed demons of the future. Generally such regional strife is outcomes of the need to gain control before development comes to the region. Generally such strife gets resolved by itself if handled with fragile care.

It is reiterated here that International North-South Transport Corridor has tremendous geopolitical significance for India.
Reference and Notes for Conclusion


Figures:

Figure 1: Gwadar & Chabahar
Figure 2: Anzali Free Zone
Figure 3: International North-South Transport Corridor