

POLICY BRIEF

The Potential of Chabahar to Address Transit Trade Challenges of Afghanistan¹

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Introduction

As a landlocked country, Afghanistan is dependent on its neighbours, specifically Pakistan and Iran, for trade and transit. The Port of Karachi in Pakistan has long been Afghanistan's key gateway for trade connectivity with rest of the world. This stems from its short distance from major Afghan production centres, its good quality infrastructure, and a reasonable volume of international container ship traffic. By contrast, Bandar e Abbas in Iran is further away, relatively less developed, and currently under international sanctions.

The 2010 Afghanistan Pakistan Transit Trade Agreement (APTTA) governs the terms of transit trade with Pakistan. At various points, including with the onset of the COVID-19 pandemic, Pakistan restricted access to the vital transit corridors through the country. Each time, Afghanistan's importers suffer significant losses as time-sensitive products spoil, and as demurrage and detention charges mount. Afghan traders often argue that the APTTA is vague in its construction and unfair in its application. Pakistan asserts that it facilitates Afghanistan's trade with India

while not receiving an equivalent level of facilitation of its exports to Central Asia. Overall, Afghanistan-Pakistan relations are complicated and politically fraught. Afghanistan's dependence on the Port of Karachi gives Pakistan substantial leverage. Many analysts would assert that Islamabad has not infrequently used this tool to pressure Kabul.

From Afghanistan's perspective, having access to an alternative seaport would create competition, lower prices, provide great predictability for traders, and put it on a more equitable playing field politically with its neighbours. In this context, the emergence of the Port of Chabahar in Iran is interesting. Chabahar has been exempted from U.S. and other international sanctions on Iran, making it unique. Once the port is fully developed and operationalized, it can be an attractive option for Afghan traders. More broadly, the port should be a great contributor to overcoming Afghanistan's transit trade challenges.

Overview and Strategic Outlook of Chabahar Port Project

Chabahar Port is located at the meeting points of the Indian Ocean and Sea of Oman. In early May 2015, India and Iran signed a Memorandum of Understanding (MoU) in which India would construct a container terminal and a multi-purpose cargo terminal on the site. Further, India would

operate two berths under a ten-year lease in Phase-I of the project. A year later, Afghanistan, Iran, and India signed a tri-lateral transport and transit agreement.

Trade Routes Under Development

The agreement was celebrated in landlocked Afghanistan as it would provide the country with uninterrupted and reliable access to sea. It also would allow India easy access to Central Asia. The port is envisioned to provide immense trade and investment opportunities to Afghan private sector. Its strategic importance rests in addressing Afghanistan's particular transit trade challenges and in enhancing connectivity to landlocked Central Asian Republics.

The first phase of Chabahar Port project was inaugurated in December 2017. The first export cargo from Afghanistan was sent via Chabahar Port in February 2019, while the first import cargo from India reached Afghanistan in May of the same year. Between February 2019 and January 2021, Chabahar Port **handled 123 vessels and 1.8 MMT of bulk and general cargos**. India sent 75,000 MT of wheat to Afghanistan after the onset of COVID. It also sent 50 MT of pesticides to Iran to assist with fighting a locust invasion.

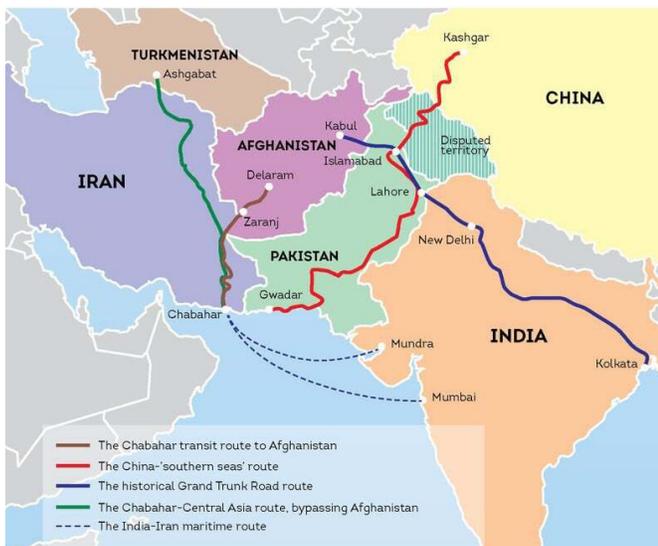


Figure 1: Source: [Hindustan, the Faraway Island](#).

Despite this growth, many Afghan traders continue to use Iran's Bandar e Abbas for non-Karachi trade, despite it being further away from Afghan production centers and under international sanctions. But events on the ground are beginning to shift in favor of more vibrant operations at Chabahar. First, India will soon deliver the remaining four cranes needed to make the port fully operational. Mansukh Mandaviya, India's Minister of Shipping, recently stated that he will be in Chabahar to officially inaugurate the port before the end of May 2021.

Even more important is the fact that India is "putting its shoulder" into making Chabahar a commercial success. A key driving factor behind India's push on Chabahar is arguably not economic, but geopolitical. China is developing the port of Gwadar, some 70km down the coast in Pakistan. It is a key terminus of the [China-Pakistan Economic Corridor](#) (CPEC), which starts in Kashgar in Xinjiang region. While the CPEC has proceeded sporadically, the relatively warm relations and prospect of robust infrastructure connectivity between two of its key strategic rivals is of great concern to India. Afghanistan and India have also had strong linkages for centuries. Deepening trade, transit and transport connectivity can, in its view, help to stabilize Afghanistan and bring the two countries even closer.

The landlocked nations of Central Asia are also particularly interested in Chabahar. The port was noted as a solution to the

region's trade isolation in the October 2020 Joint Statement following the 2nd India-Central Asia Dialogue. In December 2020, India, Uzbekistan and Iran held a trilateral meeting on transport connectivity. This was followed in March 2021 by a meeting of the Uzbek and Indian Foreign Ministers on Chabahar.

Uzbekistan hopes to deepen linkages between Central and South Asia further by hosting a leader level Summit in Taskent in July 2021. Chabahar is at the heart of many of these plans. Even more importantly, Uzbekistan, which has previously built a [rail link](#) from its border to the northern Afghan city of Mazir-e-Sharif, announced in 2018 it would extend the rail link, with Asian Development Bank (ADB) support, to Herat, near Afghanistan's border with Iran. In February 2021 Uzbekistan announced that it would build, also with ADB support, rail links to Kabul and Kandahar – key gateways to Chabahar as well as the Pakistani rail network. The Embassy of Uzbekistan in India recently released a [strategy paper](#) on its connectivity plans, arguing that it would reduce the cost of regional trade by 30%.

For Afghan traders, the prospect of a Chabahar Port connected to a robust transport network and running at something approximating capacity would be a welcome development. Use of Chabahar is likely to grow as the domestic situation in Afghanistan stabilizes and traders start witnessing the fact that it is less painful than the alternatives.

Current Operating Environment of Afghan Transit Trade

Today, the current environment faced by Afghan traders can seem painful. As noted, Afghanistan has mainly relied on Pakistan for transit trade. With the 2010 Afghanistan-Pakistan Transit Trade Agreement undergoing re-negotiation, many of these challenges are coming to the fore.

First among these are what Afghan traders regard as excessive and often redundant security measures for screening cargo. Second, operating hours at ports of entry and exit are unpredictable with unannounced and lengthy closures of border crossing points being not uncommon. Third, clearance processes at seaports and land ports of entry are very slow.

These and other challenges can eat into profit margins and raise the cost of cross border commerce significantly. At the Port of Karachi, slow processes mean that Afghan traders

regularly must bear heavy demurrage to port authorities and detention charges to shipping lines. These can average between \$80-\$240, depending on the length of time it takes to return a container to shipping lines.

Further, to avoid these charges traders often make illegal payments. According to the Afghanistan-Pakistan Joint Chamber of Commerce and Industry (PAJCCI), the average unofficial payment for a container is approximately RKR 21,000 (~\$130)¹. These costs could reach tens of millions of dollars for an average 100,000 containers per year.

With respect to trade with India, a crucially import element in the APTTA is that Afghanistan can export to India but cannot import its products. Trucks are therefore condemned to being full only one way on the journey. When Afghan goods arrive at the Port of Entry at Wagah, Pakistan, they typically must be

1 Pakistan- Afghanistan Bilateral and Transit Trade Issues & Proposed Resolutions, Pakistan Afghanistan Joint Chamber of Commerce and Industry, April 2018

offloaded and reloaded in wheelbarrows and carts. These are then pushed for several kilometers across the border to the Indian Port of Entry at Attari. They then are reloaded on to trucks and transported to Delhi. Anything that is perishable is at risk of being destroyed in the process.

Given these challenges, Afghanistan launched National Air Corridor Program under which traders receive subsidies for air freight to deliver the goods to India. While the initiative has been effective in improving export figures, the sustainability remains in question. Moreover, air freight is best suited for small, light, and valuable products such as spices and dried fruits.

The challenging nature of trade processes at Wagah-Attari between India and Pakistan argues strongly in favor of the expanded use of the port of Chabahar. These problems have already shifted large amounts of Afghan transit trade towards Iran's Bandar e Abbas port. Yet, the ebbing and flowing of international sanctions mean that these shifts are not permanent. **Chabahar's sanctions-free status** is enormously valuable and has the potential to see it outstrip both Karachi and Bandar e Abbas over the medium to long term.

Other Considerations

Other reasons why expanded use of Chabahar makes sense include:

KABUL TO CHABAHAH



Figure 2: Source: [The Great Railway Game](#). CSIS.

- **Trade Diversification:** There are a whole array of products that cannot be viably exported by air or moved across borders in wheelbarrows. Mining products are a good example. Afghanistan is a mineral rich country; however, without reliable trade routes and easy access to sea, it would be difficult to make exporting minerals including talc, coal, iron ore and marble economically viable. With its modern port infrastructure and connectivity to Mumbai, Chabahar could easily handle these products. In fact, Afghanistan has already shipped talc to India via Chabahar on pilot basis.
- **Infrastructure:** Separately from the rail links in the north and center of Afghanistan, **India is investing heavily in the road and rail** connections necessary to get goods from Kabul to Chabahar. They have already built the 217-kilometer Zaranj-Delaram highway, which was previously the missing link between the Chabahar port and the 2100-kilometer Afghanistan ring road system. Delhi plans to invest \$1.6 billion to realize a line covering the 610 kilometers between Chabahar in the south and Zahedan in the north, part of the 900-kilometer Hajigak-Chabahar railway. Incidentally, India has already expressed interest in the Hajigak iron ore mines of Afghanistan. When this infrastructure is complete, connectivity between Kabul and Chabahar will be better than any other option.
- **Space:** The multi- purpose Chabahar Free Zone will offer investment opportunities in industrial and other sectors that should be attractive to Afghan businesspeople. Given that it handles 85% of Iran's imports, Bandar e Abbas is already facing capacity constraints.

Chabahar would give traders, producers and investors in different regions of Afghanistan clear choices in their transit and port decisions. Chabahar avoids the challenge of international sanctions, which seem likely to persist for some time. Moreover, the emerging competition between ports is one of the means for Afghanistan to put pressure on Pakistan to address the concerns of Afghan economic actors and make transit through the country and at the Port of Karachi a less onerous experience.

Recommendations

The Chabahar port has been of limited use despite the completion of Phase- I of the project. Hence, the following key recommendations are made to increase its use.

DISCUSS AND ADDRESS OPERATIONAL ISSUES

There are several operational issues including the issuance of visas, services at the port and challenges with banking transactions, which have made traders and carriers reluctant to use the port. An active process of dialogue problem-solving will be necessary to build confidence in Chabahar as an option.

ADVOCACY AND DIPLOMATIC EFFORTS

Despite being a key stakeholder, Afghanistan has had a passive role in port related issues. As a partner that would reap many benefits from the port's growth, the country would need to make serious diplomatic and advocacy efforts to ensure that the port reaches its full potential and current positive operating environment is retained. Raising the profile of discussions around Chabahar political, academic, and diplomatic venues would be greatly supportive of these efforts.

RAISING AWARENESS

The particulars around Chabahar are poorly understood in Afghanistan and less understood among international companies serving the country. Closing this information gap is crucial for the operationalization of the port. On the other hand, it is important to create awareness and inform the traders and business community of Afghanistan and partner countries about the incentives and investment opportunities that the port of Chabahar could offer.

ESTABLISHMENT OF JOINT CHAMBERS

To engage the business community and pave the way for investment, it will be important to establish a joint chamber of commerce and investment among private sector representatives from all the three member countries. The joint chamber could help in engaging key stakeholders and in ensuring that issues related to the further development, operationalization, and usage of the port are monitored and followed up through a strong institutional set up. It would also allow the private sector to closely work the governments of the three member countries to address issues of common concern.