



Study the Role of Chabahar on Improving Iranian Trade via I.N.S.T.C.

Late Amir Saeed Nooramin¹, Dr. Jafar Sayareh²

Abstract

Transit trade is a country's foreign trade that passes through a third country's territory prior to reaching its final destination. In view of Iran's geo-strategic position and its role in exchange of goods as well as regional and interregional economic relations, the issue of transit enjoys great significance. Geographically, some of main international transit trades pass through Iran. Needless to say, having a strong transport system attracts huge benefits to the country. Firstly, this paper discusses and depicts different aspects of the International North-South transport corridor (I.N.S.T.C) and secondly, it evaluates the role(s) that port of Chabahar can play in the fore-mentioned transit route. The final objective of this paper is to introduce Chabahar as an international hub port in the Middle East.

Key words: Transit Corridor, Chabahar, Hub Port, Transit Trade

Introduction

During the last two years, strong growth in the world economy continued, fuelled by the expansion of some dynamic developing countries. World GDP grew by 3.8 percent, the third highest increase in a decade. The strong and sustained growth of China, India and other dynamic developing countries is increasingly becoming the main driver of world economic activity. Developed countries expanded by 3.0 per cent, while developing countries and economies in transition experienced faster growth estimated at 7.3 per cent and 8.4 per cent, respectively [1]. International trade depends strongly on containerization and the trade within containers among transit routes. The volume of world merchandise trade recorded robust growth, increasing by 5.5 per cent, from 2007 to 2008 [1]. This highlights the effect of increasing globalization and deepening economic integration.

¹ Faculty of Maritime Economics and Management, Khoramshahr university of Marine Science and Technology, Khoramshahr, Iran , Mr. Nooramin passed away in April 2012 in Kish Island. GOD bless his soul.

² Faculty of Marine Engineering, Chabahar Maritime University, Chabahar, Iran

With the globalization of production, attempts at the liberalization of trade, the development of regional trading blocks, and the introduction of new technologies for international movement of goods, the role of international transport logistics operation is more important than ever.

Trade and transport facilitation is increasingly crucial for developing countries, competitiveness, and thus for their development potential. At the same time, the capacity to implement facilitation measures is closely related to the starting level of a development of the country [2,3,4]. The following table presents freight rates (market averages) per TEU on the three major liner trade routes which includes the estimation of the share of Europe-Asia corridors.

Table1. Freight rates (market averages) per TEU on the three major liner trade routes

(\$ per TEU and percentage change)

| Asia | Trans-Pacific | | Europe-Asia | | Transatlantic | |
|----------------|---------------|------|-----------------------|-------|-------------------|---------|
| | Asia-USA | USA- | Europe-Asia Europe | Asia- | USA-Europe USA | Europe- |
| 2006 | | | | | | |
| Fourth quarter | 1 878 | 825 | 825 | 1 709 | 1 009 | 1 815 |
| Change (%) | -1.5 | 1.2 | 1.2 | -3.9 | 7.9 | 5.2 |
| First quarter | 1 836 | 815 | 793 | 1 454 | 995 | 1 829 |
| Change (%) | -2.2 | -1.2 | -3.9 | -14.9 | -1.4 | 0.8 |
| Second quarter | 1 753 | 828 | 804 | 1 408 | 1 010 | 1 829 |
| Change (%) | -4.5 | 1.6 | 1.4 | -3.2 | 1.5 | 0 |
| Third quarter | 1 715 | 839 | 806 | 1 494 | 1 041 | 1 854 |
| Change (%) | -2.2 | 1.3 | 0.2 | 6.1 | 3.1 | 1.4 |
| Fourth quarter | 1 671 | 777 | 792 | 1 545 | 1 066 | 1 762 |
| Change (%) | -2.6 | -7.4 | -1.7 | 3.4 | 2.4 | -5.0 |
| 2007 | | | | | | |
| First quarter | 1 643 | 737 | 755 | 1 549 | 1 032 | 1 692 |
| Change (%) | -1.7 | -5.1 | -4.7 | 0.2 | -3.2 | -4 |
| Second quarter | 1 675 | 765 | 744 | 1 658 | 1 067 | 1 653 |

| | | | | | | |
|---------------|------|-----|------|------|------|------|
| Change (%) | 1.9 | 3.8 | -1.4 | 7.0 | 3.4 | -2.3 |
| Third quarter | 1707 | 780 | 777 | 1952 | 1115 | 1725 |

| | | | | | | |
|----------------|------|-----|------|------|------|------|
| Change (%) | 2 | 2 | 4 | 18 | 4 | 4 |
| Fourth quarter | 1707 | 794 | 905 | 2054 | 1147 | 1766 |
| Change (%) | 0 | 2 | 16 | 5 | 3 | 2 |
| 2008 | | | | | | |
| First quarter | 1725 | 861 | 968 | 2021 | 1193 | 1700 |
| Change (%) | 1 | 8 | 7 | -2 | 4 | -4 |
| Second quarter | 1837 | 999 | 1061 | 1899 | 1326 | 1652 |
| Change (%) | 6 | 16 | 10 | -6 | 11 | -3 |

Source: UNCTAD (2008, p.84)

International corridors play a major role on world's trades by reducing the time and cost of transit. There are few numbers of these corridors throughout the Asia:

1. International north-south transport corridor
2. Europe – Caucasus – Asia transport corridor
3. A.L.T.I.D corridor
4. East – West corridor
5. Silk Road
6. Asian highway networks [5]

The Middle East region is in the middle of exciting global, regional, and local developments in terms of transport and logistics. Beginning in the first century AD, the Silk Road brought intense trade and substantial wealth to the region, and the fundamental drivers for this traffic have not changed since then. Today, the region is still located halfway on the trade lane between Asia and Europe and provides a multitude of land and sea connections linking those economic mega agglomerates. Hence, with the vast growth of global and regional trade, and especially the trade between Europe and Asia and within the broader region, the Middle East faces unprecedented opportunities to capitalize on the unique strength of its favorable geographic location [6].

Geographically, because of the location of Iran, having an efficient transport logistics, it will be a corridor for carrying freights and also passengers. Three of these corridors cross Iran; namely, (I.N.S.T.C., Silk Road and East-West corridor). It is worth mentioning that attracting other countries to these corridors brings drastic benefits, particularly in terms of foreign incomes to the country. Chabahar, as a link between the I.N.S.T.C. and East-West corridor, demands more attention. It has the competence, aptitude and a very strong potential to become a hub port in the Middle East, outside the Persian Gulf.

A Strategic Transport System

According to Majdalani et al. [6], there are four macroeconomic elements making a strong and efficient transport and logistics sector a strategic one:

1. Enhancing economic activity: Strong and efficient transport and logistics service offerings are essential to provide efficient access to markets for domestic trade and manufacturing and enhance economic activity. At the same time, the availability of efficient transport and logistics services is increasingly a key decision criterion for foreign direct investment, in addition to competitive factor costs and availability of skilled resources.
2. Enhancing industry competitiveness: Opening markets and abolishing import custom duties increasingly expose domestic industries to global competition. For the Middle East, these realities have ramifications on two levels: first, the effective removal of import barriers, as promoted by the World Trade Organization, exposes local and domestic markets to global competition; thus, Middle Eastern manufacturers face increasing competition in their home markets. Second, Middle Eastern manufactures face stronger competition in their international export markets as global logistics and supply chain services become more sophisticated on a global scale.
3. Growth of the industry sector: The transport and logistics sector itself provides an attractive opportunity to enhance economic activity. The Middle East's opportunities globally and in its own broader geographic region, described earlier, make a strong transport and logistics sector crucial for the Middle East in particular.
4. General of sustainable job opportunities: Finally, besides providing a key building block for growing economic activity in manufacturing and other sectors and hence providing a basis for increasing employment levels, the growing transport and logistics itself will provide the substantial potential for employment growth that Middle East countries are eagerly looking for. As in other emerging markets, an additional supporting factor of the industry's employment potential is the Middle East's competitive labor cost, which reduces pressure for automation and workforce efficiency.

International North-South Transport Corridor and the Role of Iran

Officially opened in 2000 by Russian, Iranian and Indian representatives, the transport corridor (ITC) South-North connects the European community countries via Russia-Iran-India to the South and Southeast Asia states and the Middle East. The ITC is a combined railway-waterway route passing through port Mumbai (India), Persian Gulf, port BandarAbbas (Iran), further through the Iranian soil to the Caspian port of Anzali (Iran), across the Caspian sea to port Olya (Astrakhan, Russia) – by Volga-Baltic system of the rivers and channels to river ports of Moscow and seaport in Saint Petersburg (Baltic Sea) or port Murmansk

(Kola Gulf), and finally to the Western Europe. Direct delivery of containers from port of Anzali (Iran) up to the Russian ports on the Black and Azov Seas, and further to ports in the Mediterranean Sea is also possible. Transportation of goods by main ITC channel South-North (India – the Baltic sea) is at least 30 per cent cheaper and twice faster, than transportation through Suez Canal (until now the only way of delivery from the South Asia to Europe). For example, ITC shortens a travelling distance from India to Russia from 16,000 km to 6,000 km. It virtually reduces a transportation time of Indian goods to Europe and in particular to Scandinavian countries, by about two weeks [7].



Figure 1. International North-South transport corridor

A report from Economic and Social Council of the United Nations [7] urges that using Iran instead of traditional route (Suez Canal) causes, at least, a 40 per cent reduction in time and also a 30 per cent reduction in cost of transit. Analysis indicates that Indian cargo transported via this route has increased dramatically over the past years, reversing the dramatic decline of the 1990s. In the Soviet era, millions of tons of transit cargo per year passed from Europe to Iran via the USSR and between the USSR and India along this route. The report further discusses that small shipments of tea and tobacco first made their way to Russia from India through Iran in 2000. Russia exports mainly metals, timber, paper, machinery and chemicals to Iran, while Iran sends mainly foodstuffs, cars and buses to Russia. The revived route is expected to offer both quicker and cheaper transportation than the primary alternative—the shipment of goods from South Asia through the Mediterranean and Suez Canal and then into the Atlantic and North Sea to Baltic ports.

The Strategic Role of Chabahar Port

Chabahar is the only seaport in the extreme southeast part of Iran, in the Gulf of Oman and outside the Persian Gulf (Figure 2) which its coast line along the Gulf of Oman is as long as 300 kilometers. Among all Iranian southern ports, Chabahar has the shortest distance to eastern markets like India, Pakistan and even

China. Furthermore, it provides shortest transit route, via Iranian road network, connecting Indian Ocean to Afghanistan, Pakistan and the Central Asian countries.

Therefore, this unique location of Chabahar makes it strategically important port among other ports of Iran, particularly in terms of transit. As it can be noted, in addition to I.N.S.T.C., it is the last point in the East-West transport corridor crossing China and India. It can, thus, act as a connector between east and west of Asia. Figure 2 illustrates Iran's major seaports including the unique and strategically significant location of port of Chabahar in the Gulf of Oman.

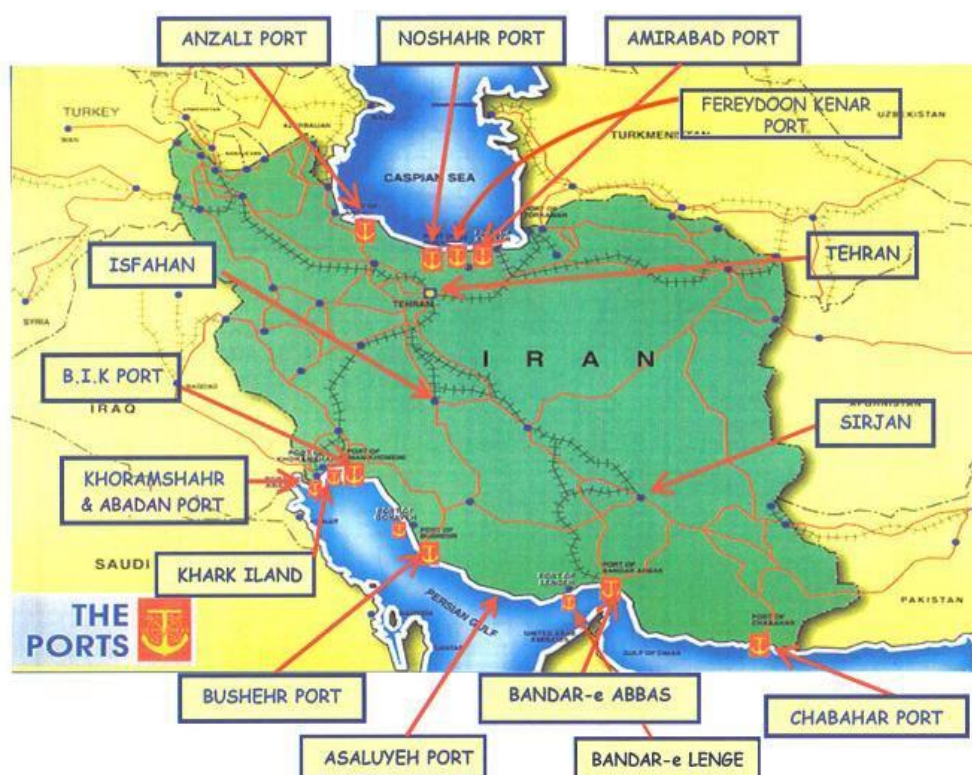


Figure 2: Islamic Republic of Iran (IRI)—Major Seaports

It can be the gate of transit from eastern countries to western Asian countries and north Europe via both road and maritime modes, and potentially rail mode in the future. Constructing the New Silk Rail Road (N.S.R.R.) as an international transit network, Iran and henceforward Chabahar will become the gate of global trade in the west of Asia. Due to lack of adequate and ample development in the past decades, Chabahar has not been able to allocate an efficient share in the import and export of our country, and consequently not much share of transit could be attracted by this port. However, it is the best route to transship goods in the Persian Gulf. It has the least tariffs among all Iranian southern ports. In addition, having cheap laboring resources and low warehousing costs, cause an inexpensive business in this port.

Having deep jetties, ships with 12.5 meters draft can be berthed. In other words, Chabahar is the deepest Iranian port after Bandarabbas. Furthermore physical constraints in the Bay of Chabahar construct a natural breakwater that provides a safe region for sailing whichever the maximum height of waves is 2 meters.

During Iraq-Iran war, Chabahar played a significant and noteworthy strategic role for the country, because of its precious location outside the troubled region of Persian Gulf during war. It was one of the main transit seaports at the time. The only free trade zone in the Middle East, outside the Persian Gulf is Chabahar industrial and trade free zone. It provides a tax-free region to import raw materials and re-export valuable goods. Unfortunately, the industrial sector has not acted well. Posing regulations to motivate private and foreign sectors to invest in Chabahar can be an alternative to develop the industrial sector in Chabahar free zone.

Can Chabahar Be Turned into a Hub Port?

In a hub system, services are offered between a certain number of origin-destination points (the local/regional terminals) represented by nodes 1 to 9 in Figure 3. Achieving economies of scale, low-volume demands are moved first to an intermediate point-a consolidation terminal or a hub (nodes A, B and C in Figure 3).

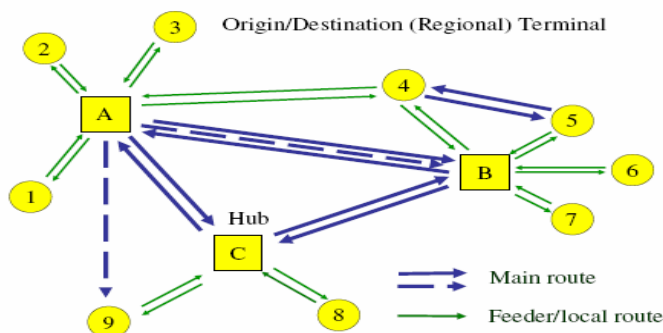


Figure 3. Schematic of a hub system

A hub-and-spoke organization allows a much higher frequency of service between all origin-destination pairs in the network and a more efficient utilization of resources [8]. The drawback of this type of organization is increased delays due to longer routes and the time spent in terminals. At a hub, traffic is consolidated into larger flows that are routed to other hubs by high frequency, high capacity service, of possibility different modes, may be operated between hubs [9,10]. Among all Iranian southern seaports, Chabahar has less distance to international waters. In addition, its deep waters and also its strategic location outside the Persian Gulf are main factors that make Chabahar capable of becoming a hub port in the Middle East.

In case of constructing Chabahar-Bam rail network and developing Chabahar-Bandarabbas road network, the strategic capability of Chabahar will increase sharply. It will connect Chabahar to the national

road and rail networks, thus providing regular feeder services within the whole country, thus increasing its role in I.N.S.T.C.

Conclusion

Strategically, there should be a modern port outside the Persian Gulf feeding other neighboring ports. Lack of sufficient investment, Chabahar cannot play this role as expected. Not losing the competition with neighboring countries, some issues should be considered:

- Providing an efficient multimodal transport logistic system, linking Chabahar to national rail line as soon as possible. Any delay causes losing foreign benefits. Having rail mode of transportation reduces the time and distance to travel from south to north and vice versa significantly.
- Attracting more trades in Chabahar demands low tariffs. Naturally, it will create more economical opportunities and development in Chabahar.
- Having deep waters is comparatively one of the advantages of Chabahar. Unfortunately, maintaining an appropriate and constant depth to accommodate ocean-going ships has been a major issue in recent years. Construction of a suitable breakwater (under progress) and continuous dredging will definitely help calling larger ships.

Furthermore, improving multimodal transport system in Chabahar has several local results. It will

1. Enhance the economic activity
2. Enhance the industry competitiveness. With respect to economical free zone, it is possible having an active industrial free zone in Chabahar.
3. Growth of the industrial sector
4. Generation of sustainable job opportunities in the region.

Trade and transport facilitation must be considered and implemented as a development factor, and not simply as an administrative tool with an impact limited to border-crossing trade operations.

References

- [1] UNCTAD, "Review of Maritime Transport", 2008.
- [2] UNCTAD, "Efficient transport and trade facilitation to improve participation by developing countries in international trade", 2006.
- [3] UNCTAD, "Design and implementation of transit transport arrangements", 2004.
- [4] UNCTAD, "Overview of the world's commodity exchange", 2006.
- [5] Atrchian, M.J., "International and regional corridors and Islamic Republic of Iran transit role and strategy", Expert meeting on regional cooperation in transit transport, Tehran, Iran, 2007.
- [6] Majdalani, F., Koegler, U. & Kuge, S., "Middle East Transport and Logistics at a Crossroads", Oxford University Press, New York, 2007.

- [7] United Nations, "Euro-Asian Transport Links", Economic and Social Council, United Nations Publication, Geneva, 2004.
- [8] Crainic, T & Kim, K., "Intermodal transportation", Canada: Centre of transport research, 2005.
- [9] Mckinnon, A. Button K. & Nijkamp, P., "Transport logistics", USA: Edward Elgar Publishing, 2003.
- [10] Nakagawa, D. & Matsunaka, R., "Finding transport systems: A comparison among developed countries", UK: Elsevier Science Ltd, 1997.