

INSTC : Could be a Positive Fallout of The Iran Saudi Arabia Rapprochement

One of the positive fallouts of the Iran – Saudi Arabia rapprochement could be a new impetus given to the International North South Trade Corridor (INSTC). If implemented the deal could result in greater integration of India through Iran to Russia and the focus will now be on trade with Eurasia. The INSTC could also become a key component of the future of both Saudi Arabia and Iran. The progress on INSTC will lead to security, stability, development and economic growth of the region and this could be integrated with the BRI.

Announced in September 2000 at the Euro-Asian Conference on Transport, by India, Russia and Iran in St Petersburg, Russia, this 7,200-km long multi-modal transport corridor is primarily meant to speed up movement of goods between India and Russia through Iran.^[i]

While India, Russia and Iran remain the founding members, INSTC was soon expanded to include eleven other countries to include Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Turkey, Tajikistan, Ukraine, Oman, Syria and Belarus. Bulgaria has ‘observer’ status.

The realisation of the trade potential of East Europe, the Persian Gulf and India began to be actively pursued only after the formation of the Eurasian Economic Union (EAEU) free trade agreement (FTA) in 2015, led by Russia.^[ii]

Iran is at the centre of the route between Europe and Asia via the INSTC which offers multi-modal connections between India to the Iranian Gulf Ports at Bandar Abbas and Chabahar. From there, goods can transit Iran, North via rail to the Caspian Sea Ports at Anzali and then onwards to Baku Port in Azerbaijan, heading West via rail to Turkey and Europe via the Black Sea, North to Russia at Lagan Port, or East to Turkmenistan and Kazakhstan in Central Asia. The multi-modal operations give faster connections than the current Suez Canal link.

In July 2022, the first commercial consignment transported in containers from Astrakhan Port in Southern Russia through Iran’s Anzali Port in the North and Bandar Abbas Port in Southern Iran, reached Mumbai’s Nhava Shewa Port, establishing INSTC’s viability. ^[iii]

Major Impediments

There are major impediments to the INSTC reaching its full potential. One of it is poor Iranian infrastructure. Much of the transit of goods on the INSTC still takes place on roads in Iran and most of Iran’s railway is single track. There are also unfinished railway sections.

After the First Nagorno -Karabakh War, the regions near the Iranian border came under Armenian control and the railway connection between Nakhichevan and mainland Azerbaijan was severed. Iran’s railway connection with the Caucasus was cut and Iran does not have a direct rail connection with the Caucasus region. In fact, to the East of the Caspian Sea there is a working railway route from Russia through Kazakhstan and Turkmenistan to Iran, along the Western shore of the Caspian, in the South Caucasus region, the linked railway networks of Russia and Azerbaijan still lack a physical connection with Iran. Completion of the railway route no doubt is imperative, however tensions between Iran and Azerbaijan in recent months have held construction plans up.

Iran needs to improve its Port capacities, rail and road infrastructure, transportation terminals and modernise its transportation fleet. There is a clear need investment in transportation infrastructure, which has been difficult due to US sanctions on Iran. Further, private companies

are unwilling to invest in projects in Iran for fear of being blacklisted. There are also tensions between Azerbaijan and Iran.

Apart from this some of the other issues are, problems related to customs procedure and documentation. Low level of existing containerisation and shortage of wagons on the route. Higher tariff by rail vis-à-vis road transport relating to movement from Bandar Abbas. High harbour duty rates charged by the Caspian ports. Lack of common Border crossing rules among the participating nations and the existing security problems which result in high insurance costs.^[iv]

In a related development, Armenia has proposed a Persian Gulf-Black Sea corridor to connect Indian traders with Russia and Europe. The offer was made last week by a visiting Armenian Team comprising senior officials and experts. It came at a time when Armenia's Foreign Minister Ararat Mirzoyan was also visiting India. The proposed corridor-which will run parallel to the International North-South Transport Corridor (INSTC)-will aim to connect Mumbai with Bandar Abbas in Iran and then Armenia and onward to Europe or Russia. ^[v]

Armenia, has sought Indian investments for the corridor in the Armenian territory. Since the beginning of the Russia-Ukraine war, India's trade with Russia has increased manifold via the INSTC that connects Mumbai with Russia via Iran and the Caspian Sea. Azerbaijan is a key element under INSTC but has been slow in completing an infrastructure.

India will no doubt benefit once there is seamless rail freight connectivity through Iran by the INSTC. According to a 2014 study by the Federation of Freight Forwarders' Association of India (FFAI), transporting goods through INSTC is 30% cheaper and 40% faster than through the traditional Suez Canal route. Mumbai could then become an Asian trans-shipment hub for goods to Europe.^[vi] If INSTC's full potential as a seamless transportation corridor is likely to be realised, India could also attract a significant chunk of the export-oriented manufacturing activities that are looking to move out of China.

For the pathways of the INSTC, Iran's integration is necessary. Stability in the region will enable Iran to provide safe, reliable and stable routes on the North-South Corridor, alongside developing its Southern port of Chabahar.

For doing this there has to be reduced tension in the region and investments to develop infrastructure which could now be provided with Saudi Arabia. On 15 March Saudi Arabia's Finance Minister Mohammed Al-Jadaan stated that Saudi investments into Iran could happen "very quickly" following the agreement to restore diplomatic ties. ^[vii]

The timing is important as India holds the presidency of the Shanghai Cooperation Organisation (SCO) in which Iran is due to become a permanent member. Further, on 29 March 2023 Saudi Arabia's King Salman bin Abdulaziz approved a Memorandum of Understanding (MoU) that grants the Kingdom the status of a dialogue partner in the SCO.^[viii]

While India's economic and strategic ties with Saudi Arabia have witnessed a significant upswing in recent years. With Iran there have been strains in the relationship as India stopped importing crude in 2019 when the US imposed sanctions on Iran after President Trump pulled out from the JCPOA in May 2018 calling it 'the worst deal'. The progress of the Chabahar Port project which is an important gateway not just to Afghanistan and Central Asia, but also potentially to Europe via the International North-South Transport Corridor INSTC corridor also got impacted.

The Iranian Ambassador to India stated that the Saudi-Iran agreement should be viewed positively by India.^[ix]

The INSTC network is vital to connect South Asian-Central Asian and European markets to Russia, India and China. Iran can conceivably become a Gulf regional transit hub serving all of these markets. Saudi Arabia is also a rapidly emerging economy and one of the fastest growing regions in the world. Iran meanwhile needs to make regional allies and the INSTC to facilitate movement of goods ‘without the fear of sanctions.’

Progress on the corridor has been spurred by the sanctions imposed on Russia and its increasing trade in crude oil with India. The severing of Europe from Russian energy seems to have created the incentive to accelerate investments by key stakeholders. While Iran lies centrally on the India-Russia trade route, it will no doubt benefit from the potential of increasing trade between Russia and India. With an investment boost from Russia, Iran is trying to speed up the completion of improved railway networks that will connect to the existing railways of Russia and Azerbaijan and Chabahar Port.

Following the announcement of the Saudi Arabia – Iran rapprochement deal, the Chairman of the Russian State Duma Committee on International Affairs Leonid Slutsky praised the deal and paid particular attention to the INSTC.^[x]

The importance of INSTC as an alternative transport route for international trade in unforeseen situations was reaffirmed by the incident in the Suez Canal on 23 March 2021, when a container ship ran aground and blocked all traffic between the Red Sea and the Mediterranean Sea. It caused a global failure to meet liner shipping and cargo delivery schedules, an increase in freight rates, and uncertainty regarding the logistical chains of goods delivery between Europe and Asia. Of course, the INSTS will not be able to completely replace the entire cargo flow through the Suez Canal, but the establishment of an alternative route is important.

Conceived in 2000 but still in its nascent stages, the question now is whether INSTC can be built and operationalised. The increasing trade and transit between Russian and India post the Ukrainian Conflict, has shifted the focus back on the INSTC more seriously than in the past. The Saudi Arabia and Iran rapprochement and the potential investments by Saudi Arabia in Iran has the potential to give it a major boost.

A strong push by India to the INSTC now will be a strategic step to protect and advance its interests in the Middle East and establish Mumbai port as an Asian transshipment hub. The benefits are manifold particularly once this transportation corridor transforms into a trade and economic corridor.

Endnotes

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