

WEEKLY ANALYSIS

Issue Number – 466
(February 23-March 03, 2025)

THE IMPOSITION OF SANCTIONS ON CHABAHAR PORT AND ITS IMPACT ON AFGHANISTAN



Weekly Analysis is one of the CSRS publications analyzing significant weekly political, social, economic, and security events in Afghanistan and the region. The prime motive behind this is to provide strategic insights and policy solutions to decision-making institutions and individuals in order to help them design better policies. Weekly Analysis is published in Pashto, Dari, English and Arabic languages.



In this issue:

- The Imposition of Sanctions on Chabahar Port and Its Impact on Afghanistan 3
- The Importance of Chabahar Port for Regional Countries 3
- Investment and Cooperation Efforts..... 4
- Impact of Sanctions on Afghanistan’s Economy 5
- Conclusion 7
- Recommendations 7
- References..... 8

Center for Strategic and Regional Studies (CSRS)



THE IMPOSITION OF SANCTIONS ON CHABAHAR PORT AND ITS IMPACT ON AFGHANISTAN

Introduction

Chabahar Port, located in the southern province of Sistan and Baluchestan in Iran, just 179 kilometers from Pakistan's Gwadar Port, holds a strategic and vital position for trade and transit in the region. Recognized as the closest commercial port to Central Asian countries, it has long been a key hub for the North-South Transit Corridor, a trade route designed to facilitate commerce between Central Asia, the Caucasus (especially Azerbaijan), Iran, South and Southeast Asia, India, and Russia. Over the years, this corridor has evolved into a critical trade route, strengthening regional connectivity and economic cooperation.

With the outbreak of the Ukraine war and the imposition of extensive sanctions on Russia, this trade and transit project has once again come into focus, drawing renewed attention from countries such as Iran, Russia, and India. Given its strategic importance, Chabahar Port is key in expanding economic ties among regional countries.

This article explores the significance of Chabahar Port for regional trade, the investment and collaboration efforts surrounding it, and the impact of sanctions on Afghanistan and the broader region. By examining these aspects, we aim to provide a clearer understanding of how geopolitical and economic developments shape the future of trade and connectivity in the region.

THE IMPORTANCE OF CHABAHAR PORT FOR REGIONAL COUNTRIES

Chabahar Port is not only significant within the framework of the North-South Trade Corridor but also holds special importance for regional countries, particularly India. As a major economic and industrial power in the region, India has long sought direct access to the markets of Central Asia and Afghanistan. Chabahar Port provides India with a vital trade route, allowing it to bypass Pakistan, which has often imposed political restrictions on transit access. Additionally, Iran aims to establish itself as a key regional trade and transit hub and has been strengthening economic ties with India, which, before 2018, was its third-largest oil buyer.

From a geostrategic perspective, the Chabahar Port plays a crucial role in connecting the Caucasus and Central Asia to open waters. It serves as the shortest and most cost-effective trade route for landlocked countries like Afghanistan, Kazakhstan, Uzbekistan, and Turkmenistan, reducing their reliance on traditional trade routes through Pakistan. Moreover, Chabahar has the potential to act as a bridge for expanding economic and trade cooperation between the Caucasus, Central Asia, and the Indian subcontinent.

For Afghanistan, Chabahar represents a unique opportunity to reduce its dependency on Pakistan for trade. This port enables alternative transit routes for both imports and exports, offering a more efficient and cost-effective solution. Compared to Pakistan's Karachi Port, which Afghanistan heavily relies on, Chabahar is geographically closer, reducing transportation costs significantly. Chabahar is 90



kilometers closer to Afghanistan than Iran's Bandar Abbas and 700 kilometers closer to Karachi, leading to an estimated \$500 to \$1,000 reduction in container transport costs.

Given these advantages, Chabahar is the most affordable and strategically beneficial transit route for Afghanistan's access to international waters and global trade networks.

INVESTMENT AND COOPERATION EFFORTS

In 2003, India and Iran began preliminary discussions on a joint investment in Chabahar Port. However, the project faced setbacks due to international sanctions against Iran. After the 2015 Iran nuclear agreement led to the lifting of some sanctions, Iran, India, and Afghanistan signed a memorandum of understanding (MoU) in 2016 in Tehran to develop the port's infrastructure. Under this agreement, India committed \$500 million to upgrade and equip Chabahar. By 2018, operations under Indian management began, facilitating the shipment of 2.5 million tons of wheat and 2,000 tons of pulses to Afghanistan.

Despite these efforts, the project encountered challenges after Donald Trump reimposed sanctions on Iran in 2018. Although Chabahar was exempted from sanctions for humanitarian and strategic reasons, particularly to support the then-Afghan government, shipping companies, exporters, and importers remained hesitant to engage with the port due to concerns over potential U.S. penalties. As a result, development slowed significantly.

Following the collapse of the Afghan Republic in 2021, Afghanistan's official engagement with stakeholders, especially India, was disrupted. While some discussions between Afghanistan and Iran regarding the port continued, formal cooperation on the project stalled. However, Russia's need for alternative trade routes amid the Ukraine war and India's interest in securing affordable Russian energy supplies renewed momentum for Chabahar's development. In 2024, a new agreement was



signed, granting India a 10-year management contract for part of Chabahar Port. India pledged \$120 million for infrastructure development and an additional \$150 million in loans to Iran. However, the U.S. State Department warned that any country engaging in trade with Iran must be aware of the risks associated with American sanctions. If Donald Trump returns to office, there is a strong possibility of stricter sanctions, which could directly impact Chabahar's future.

IMPACT OF SANCTIONS ON AFGHANISTAN'S ECONOMY

Considering the above discussions, it is evident that Chabahar Port holds significant importance for the future of regional economic relations. Recognizing its strategic value, Iran and India remain committed to its operationalization despite potential risks. However, with the possible return of Donald Trump to the U.S. presidency, the threat of stricter sanctions on this vital port is expected to increase.

The imposition of such sanctions on Chabahar Port could have serious consequences for Afghanistan's economy. Some of the key impacts include:

Setback in Regional Integration Efforts

Over the years, significant efforts and investments have been made to strengthen regional cooperation and expand trade and economic relations, particularly between India and other regional countries. However, the imposition of sanctions could seriously disrupt regional integration and have negative economic and political consequences for multiple nations. These sanctions would pose significant challenges, especially for Afghanistan, Iran, and India, which have played a central role in these projects.

One of the most strategic initiatives in this context is Chabahar Port, which has received substantial investment and continuous efforts toward its development. Despite this progress, sanctions could undermine the project's significance and hinder its full operationalization. As a key trade and transit hub, Chabahar connects South Asia, Central Asia, and even Europe, providing Afghanistan with a valuable opportunity to expand its economic ties with regional countries in the short term and eventually emerge as a major international trade center.

However, sanctions could severely weaken this strategic position. They would not only reduce trade and transit flows but also disrupt economic relations between neighboring and regional countries. For Afghanistan, which heavily relies on trade and transit routes with its neighbors, such restrictions could pose a serious threat to economic growth and long-term development.

Renewed Dependence on Pakistan

One of the potential consequences of sanctions on Chabahar Port is Afghanistan's reliance once again on Pakistan's Karachi Port. As one of Afghanistan's primary trade routes, Karachi Port can meet some of the country's commercial needs under normal circumstances. However, depending on this



route—especially in times of political and economic tensions between Afghanistan and Pakistan—could become a serious vulnerability.

Given Afghanistan's geographical limitations and the lack of alternative trade routes, the country would have little choice but to remain dependent on Karachi. This dependence exposes Afghanistan to economic and political pressures, including border closures, which Pakistan has enforced at times, and higher transit costs.

As a regional power, Pakistan may use this leverage to advance its own political and economic interests. At critical moments, the Pakistani government could exploit Afghanistan's reliance on Karachi as a bargaining tool, restricting Afghanistan's trade and diplomatic flexibility. This challenge is particularly significant in Afghanistan's relations with India, as Pakistan may seek to limit Afghan-Indian trade and cooperation, thereby weakening Afghanistan's position in regional negotiations.

Rising Trade Costs

One of the key advantages of Chabahar Port for Afghanistan is its ability to significantly reduce transportation costs, particularly for trade with South Asian countries and India. Due to its strategic location, Chabahar provides a faster and more cost-effective trade route for Afghanistan and the broader region. As mentioned earlier, not utilizing Chabahar could increase shipping costs per container by \$500 to \$1,000. Given that Afghanistan is a heavily import-dependent country, these additional costs would lead to higher prices for goods, placing greater financial pressure on low-income and vulnerable populations.

Sanctions, however, could eliminate this advantage, forcing Afghanistan to rely on alternative trade routes that come with higher transportation expenses. These sanctions could impact trade costs in multiple ways, including increased import and export prices due to higher shipping fees and tariffs. This would not only burden Afghan consumers but also raise the production costs for locally manufactured goods, negatively affecting the country's overall economy.

Additionally, delays in the clearance of goods at Pakistani ports, especially during border closures, could further exacerbate economic challenges. Such obstacles would slow Afghanistan's economic growth and create long-term negative impacts on the country's trade and development prospects.

Decline in Exports

Chabahar Port has the potential to play a crucial role in Afghanistan's foreign trade and help the country overcome economic constraints. According to the latest data from the World Bank, Afghanistan's total exports in the first nine months of 2024 have declined by 12%, reaching \$1.1 billion. Among the key sectors affected, food exports dropped by 6% to \$749 million, while coal exports saw a significant 69% decline, falling to \$69 million. This decline is largely due to shifting trade relations with Pakistan. Increased domestic reliance on coal in Pakistan and the introduction of the Temporary Admission Document (TAD) for drivers in March 2024 have negatively impacted Afghanistan's food exports.



It is important to note that food products and coal are Afghanistan's top export commodities, making up 73% of the country's total exports. Pakistan remains Afghanistan's largest export market, accounting for 47% of total exports, followed by India at 30%. Meanwhile, Iran, Kazakhstan, and Uzbekistan, each making up around 3%, are emerging as new export destinations for Afghanistan. These new trade routes have primarily developed due to frequent border closures with Pakistan.

Given Afghanistan's heavy reliance on Pakistan and India for exports, any sanctions on Chabahar Port could have serious consequences, particularly for Afghanistan's trade with India. If access to Chabahar is restricted, Afghanistan may face further export challenges, adding to its economic difficulties.

CONCLUSION

Considering the points discussed, it is clear that Chabahar Port plays a crucial role in shaping the future of regional economic relations. India, as a regional economic power, seeks to bypass Pakistan and expand its access to Central Asian and Afghan markets. This allows India to secure raw materials for its industries while also selling finished goods to these countries, ensuring its long-term economic growth.

Iran, on the other hand, aims to position itself as a key regional trade hub and seize new economic opportunities. Meanwhile, Afghanistan, as a landlocked country, is looking for new trade corridors to connect with open waters, enabling it to export goods to international markets and import products at lower costs from various countries. Additionally, Afghanistan seeks to reduce its dependency on Pakistan, which has often failed to uphold trade agreements. Until a few years ago, more than 80% of Afghanistan's trade relied on Pakistan, making diversification a strategic necessity.

Imposing sanctions on Chabahar Port could have serious consequences for Afghanistan's economy. These sanctions would hinder Afghanistan's ability to expand its regional economic ties, force the country to rely on Pakistan once again, increase trade costs, and negatively impact its export sector.

RECOMMENDATIONS

- Given that the United States has poor relations with both Iran and Afghanistan, India should make every effort to ensure that Chabahar Port does not end up on the sanctions list during its political negotiations with the U.S. The ongoing dire economic and humanitarian situation in Afghanistan can serve as a rationale and justification for this.
- To mitigate the impact of sanctions, Central Asian countries should exert pressure on Pakistan to open the Wagah crossing for the transit of goods between India, Afghanistan, and Central Asian countries.
- Negotiations with Pakistan should be initiated to renew the expired transit trade agreement between Afghanistan and Pakistan, addressing and resolving trade and transit issues between the two countries.



- Facilitate trade and transit by investing in the country's infrastructure, including legal and regulatory frameworks, the establishment of free trade zones, transportation networks, and improving the quality of services and facilities at trade ports.
- Increase diplomatic efforts by the Islamic Emirate to gain international recognition for the Afghan government. Recognition of the government would empower the Islamic Emirate in economic and political negotiations, allowing it to engage directly with all parties on various issues that pertain to Afghanistan's national interests.

REFERENCES

1. Strategic Analysis of Chabahar Port, Kabul 2018: [Link](#)
2. Al Jazeera: Iran and Afghanistan Sign Trade Corridor Deal, May 24, 2016: [Link](#)
3. BBC: Chabahar and the Future of Afghanistan's Economy, May 25, 2016: [Link](#)
4. Al Jazeera: Does India Risk U.S. Sanctions Over Iran's Chabahar Port Deal?, May 17, 2024: [Link](#)
5. BBC: Chabahar Port: U.S. Says Sanctions Possible After India-Iran Port Deal, May 14, 2024: [Link](#)
6. South China Morning Post: India Fears Impact of Trump's Iran Sanctions on Chabahar Port, February 11, 2025: [Link](#)
7. Afghanistan Review: Reasons for the Increased Importance of Chabahar for Delhi and Kabul, December 1, 2024: [Link](#)

The Centre for Strategic and Regional Studies (CSRS) is an independent, non-profit, and non-governmental research organization established in July 2009 in Kabul. CSRS is committed to promoting policy-oriented research through conducting authentic and unbiased research concerning Afghanistan and the region.

Contact Us:

Email: info@csrsaf.org

Website: www.csrsaf.org

Phone & WhatsApp: +93780618000



www.csrsaf.org



info@csrsaf.org