

Indo-US Relations: The Iran Factor

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Abstract: India's relations with Iran has contributed largely towards shaping the broad contours of India's West Asia policy. The relationships which India is now sharing with the countries in the region and particularly with Iran have emerged as more mutually beneficial. Earlier India was too ideological towards the region, failing to pay sufficient attention to Indian national interest, particularly in the context of subdued ties with Iran. Currently India is developing its Middle-East policy by taking special care to nurture these relationships and pursue its substantial regional interest. The Indian government welcomed news of the Iran deal. The deal could open up economic and strategic opportunities for India and thus it's being seen mostly with hope; however, those hopes are tempered by some challenges and uncertainties.

In some ways, India has been preparing for a deal for several months, re-engaging Iran at the highest levels. Since February 2015, the Indian national security advisor, transport minister and foreign secretary have traveled to Iran, and the foreign minister intended to do the same until her meeting was postponed. Most recently, Prime Minister Narendra Modi met with President Hassan Rouhani on the sidelines of the Shanghai Cooperation Organization summit in Ufa, Russia, in July. He reiterated an invitation for Rouhani to visit India and said he looked forward to visiting Iran as well. After focusing its first year on India's immediate neighborhood, the Asia-Pacific and the G-7, the Modi government has made clear its intention to "look west" over its second year, including with high-level trips to Central Asia, Israel, Palestine, Jordan, and Turkey. This engagement becomes easier and more crucial for Delhi with the Vienna deal, which has implications for India in the energy, economic and geopolitical spheres.

The strategic map of Iran's immediate neighborhood will change dramatically following the landmark nuclear deal between Iran and the P5+1. Given the tremendous geostrategic stakes involved, Iran has already begun to explore greater opportunities for economic and security cooperation in the region. India, as well as Iran are trying to maximize their bilateral relationship, which will be beneficial for both the countries. This paper analyses the past and present relationship of both the countries and trying to find out its impact on world politics.

Keywords: India's Look West Policy, Iran, Nuclear Deal, Narendra Modi, Hassan Rouhani

Introduction: A country, however powerful, cannot formulate and implement its policy towards another in a total vacuum. India's Iran policy, as well as its foreign policy on the whole, reflects its domestic and external concerns and compulsions. India's need to secure its interests and broaden its options is unexceptionable. However, abstaining on Iran's nuclear issue and declining to launch the Israeli spy satellite to monitor Iranian territory would have been well within India's interests and external expectations.

Most of the discourses on India–Iran relations are either focused on cultural and civilisational links with Iran or its relevance as an energy-rich nation. Its transit potential in providing India with access to Central Asia has not received adequate attention. While there is a general acceptance that Iran provides India with access to Central Asia, what is little known and thus not analysed is the question: to what extent has India been able to realise Iran's transit potential and what are the major bilateral, regional and international challenges faced by both these countries for realising that potential? The article argues that despite Iran's geostrategic location as well as regional complexities, the Iran–US standoff, security challenges and lack of adequate economic resources constrain India's efforts to maximise the potential offered by the various land, sea and rail routes connecting India to the Eurasian region through Iran. A new thrust by all regional partners supported by international agencies to revive old links and build new corridors therefore becomes necessary.

India's relationship with Iran has been uneven owing to external factors. This article traces the role of the Pakistan factor in this relationship, wherein the religious identity of a fellow Islamic nation, the strategic outlook towards Afghanistan, and energy relations between the three countries are discussed. The article outlines the Pakistani primacy in the India–Iran strategic relationship and showcases how Afghanistan is the glue for India–Iran relations despite the breaks in their continuing relationship.

India's ties with Iran have become an irritant in the India–US relationship. Several scholars have alleged that the US is influencing India's Iran policy. This article examines three cases in which the US is said to have influenced India's position: the Iran–Pakistan–India (IPI) pipeline; India's votes against Iran at the International Atomic Energy Agency; and the Reserve Bank of India's guidelines of December 2010, which stopped oil payments to Iran through the Asian Clearing Union. The article concludes that while American pressure on India in each of these cases was tremendous and might have had some influence on India's position, this alone was not the decisive factor that determined India's stance. Given its well-documented tradition of maintaining strategic autonomy in its foreign policy, India would not have taken the positions it did if it had fundamental disagreements with the US on these issues.

The landmark nuclear deal between Iran and major world powers has enabled Tehran to restore normal trade with many countries. But before the deal was reached, and despite crippling sanctions, India was among a handful of countries doing billions of dollars

of trade with Iran. The lifting of sanctions will have significant implications for Delhi, which hopes to reinvigorate its economic and strategic engagement with Tehran. However, there are concerns among Indian businessmen that Iran may now play hard to get, or even turn to more competitive international players. The BBC's Anbarasan Ethirajan looks at the impact on India and its economic interests.

Oil imports from Iran

Current bilateral trade between India and Iran is about \$14bn (£8.96bn) with the balance of trade in heavily in Tehran's favour. Indian exports to Iran were around \$4.2bn. India primarily imports oil from Iran, but has been hampered by restrictions placed by global powers. Due to the sanctions, India has been paying Iran in Indian rupees, with the money kept in an Indian account. In fact, the country is yet to release an estimated \$6bn in pending oil payments to Iran. Now Delhi, which is the fourth largest consumer of oil in the world, is free to import Iranian oil but will have to pay in dollars. Importing goods or sending shipments to Iran is currently expensive because of high shipping charges. India hopes the removal of sanctions will make it easier for companies to get shipments.

Machinery, tools and non-agriculture commodities

India has been exporting automobile components, tools, motors and chemicals to Iran. While India's trade with Iran appears to have long-term benefits in the post-sanctions scenario, businessmen are concerned that some areas will be hit hard. "Indian exporters will have to compete with Eastern European manufacturers who produce low-end products like spanners, hand tools and auto parts. Since the value of the euro has depreciated in the last few years, we will be facing stiff competition from European manufacturers," said Ajai Sahai, Director-General of the Federation of Indian Export Organisations.

Infrastructure Projects

There are concerns in Delhi that a more assertive Iran will drive a hard bargain as it will have more diversified customers and partners from around the world. Indian companies explored and discovered oil and gas in Iran's Farzad B gas field in 2008. They have already invested around \$100m to develop the facility but production was stalled due to sanctions. After dragging its feet for years, New Delhi rushed in a delegation to discuss the project, as signs emerged that sanctions on Iran would be lifted after the nuclear deal. But Iranian press reports say Tehran has rejected India's proposal and plans to auction the site instead. If there is a tender process, it will be difficult for Indian companies to compete with French, American and Chinese oil firms who will come in with abundant resources and the latest technology. Russia and China which have been supportive of Iran may try to convert this goodwill into economic and business gains.

India also signed a \$233m contract to supply a more than 150,000 tonnes of rail tracks to develop Iran's railways. But the project has run into trouble with reports saying Iran wants to renegotiate the deal to bring down the price because the euro has declined against the dollar. Tehran also points out that once sanctions are lifted it will get better offers from other countries, like Turkey. India has now reportedly agreed to finance the entire scheme under a special mechanism.

The Iran deal—or the “Parameters for a Joint Comprehensive Plan of Action (JCPOA) Regarding the Islamic Republic of Iran’s Nuclear Program”, to use the wordy official title—has primarily been measured in the number of centrifuges and evaluated in terms of Tehran’s ‘break-out’ timeline to build a nuclear weapon. While this is, doubtless, the crux of the JCPOA, the yet-to-be-signed agreement is equally significant for U.S.-Iran relations, the future of the Middle East as well as India-U.S. relations, and New Delhi’s geopolitical future.

The Iran Deal

Brushing aside those observers who criticise the nuclear deal with Iran and argue that it cannot lead to positive outcome, Barack Obama, the US President, candidly observed some time back in an interview: “Don’t judge me on whether this deal transforms Iran, ends Iran’s aggressive behavior toward some of its Arab neighbours or leads to detente between the Shias and the Sunnis. Judge me on one thing: Does this deal prevent Iran from breaking out with a nuclear weapon for the next 10 years and is a better outcome for the US, Israel, and our Arab allies than any other alternative on the table?”

It is indisputable that India stands to be a major beneficiary of the Iran nuclear deal. There is a plenty of optimism around as India can rightly hope to become a major importer of Iran’s oil and gas in the immediate aftermath of the lifting of crippling sanctions. But there is a need to conceptualise a grand strategy that will prove to be adequate to the new circumstances beyond the generic desire to secure energy supplies through pipelines. It is about an eventual emergence of a liberal-democratic society in Iran which is largely independent from Government control. This narrative is glaringly absent at the moment.

The inward-looking conservatives in Iran’s ruling establishment have so far relied heavily on outmoded norms of sovereignty, pan-Islamic symbols, nationalist rhetoric and anti-imperial propaganda as sources of legitimacy. As Iran will seek to deepen its ties with the global political economy to facilitate access to international markets, investments and technology, it will be expected to make some compromises. And what would be the implications of those compromises? In the long-run, it may cause the greater change in Iran’s political culture as it will force the fundamentally conservative ideology to confront the challenges posed by increasing political and cultural interactions with global and Western players. The reformists in Iran’s ruling elites will become more confident to fight for democratic consolidation, cultural opening and economic liberalisation.

Change is more likely to occur when new social actors appear on the scene. Iran's military-religious establishment has remained strong enough to prevent the emergence of a new social group that might challenge its power. But the regular practice of electoral democracy seems to have made a difference in Iran. A huge middle class has appeared. In many Muslim societies, the middle class has been the dynamic force responsible for political change. The aim of bringing about democracy has, however, remained chimerical in those societies. If electoral democracy is not to regress further into more rigid form ofocratic authoritarianism in Iran, the Western countries cannot avoid to systematically engage the forward-looking, non-violent champions of political Islam.

The Iran deal is of salience to the United States and the world for several reasons. At the very least, it would ensure a non-attack guarantee for Iran not only by the United States, but also its estranged allies, Israel and Saudi Arabia; neither is likely to risk a military option as long as the deal is in place. It would also vindicate India's preference for diplomacy over military action to address contentious issues, particularly in the Middle East. More expansively, it raises the possibility for normalizing the relations between Washington and Tehran that have been estranged since the 1979 Islamic Revolution. Indeed, this prospect makes the U.S. opening to Iran as significant as the U.S. opening to China in 1972 (with Oman playing the backchannel role that Pakistan performed vis-à-vis China), and holds the same potential to change world order and India's role in it.

For India, the deal holds several lessons and implications for its relations with both Tehran and the United States. Until now, India's friendly relations with Iran and refusal to adhere to sanctions imposed by the United States were a hurdle to the growing Indo-U.S. strategic partnership. In fact, India's opposition to U.S. sanctions on Iran might have been one unspoken element for slow progress on the U.S.-India nuclear agreement. Thus a deal, especially if it leads to lifting of sanctions, might also advance U.S.-India relations by removing one area of disagreement.

Second, a U.S.-Iran rapprochement might allow India to work with both Tehran and Washington to stabilize Afghanistan (just as they had done in 2001 to 2002, when all three, plus Russia, supported the Northern Alliance). Moreover, an alternative route through Iran would allow for greater Indian engagement with Afghanistan in coordination with the United States. One indication of this might be the collaboration between Washington, New Delhi, Tehran, and Kabul to jointly develop Iran's Chabahar port, which is strategically significant as an entrepot in providing access to Afghanistan. However, the lifting of sanctions might on the one hand reduce Iran's enthusiasm for India's participation in the Chabahar project, and on the other, bring in competitors with deeper pockets, like China, who can easily outspend India's puny \$85 million initial investment in the port project.

Third, for New Delhi, the deal underlines the crucial leadership role of the United States in achieving breakthroughs and holding its allies opposed to the deal in check. Indeed, in 2003, the Europeans were unable to reach an agreement with Iran because the United States was uninterested and had labelled Iran a member of the 'axis of evil.' As India seeks to reshape the existing nuclear order through membership in the various nuclear and missile related export control regimes, it will be vital for New Delhi to work closely with Washington and leverage U.S. leadership in achieving its objectives.

Fourth, while the deal will also allow India to increase oil imports from Iran (which had dropped to zero), it will also mean greater competition from other countries, particularly U.S. allies, like Japan and South Korea, as well as China. Moreover, increased oil imports from Iran will also skew the bilateral balance of payments against India with little prospects of improving them.

Finally, while sanctions compelled India to walk a diplomatic tightrope between Iran and the United States, the lifting of sanctions will witness New Delhi trying to walk between raindrops as it seeks to strengthen relations with Israel and Saudi Arabia on the one hand, (both of whom are vehemently opposed to the deal) and Iran on the other.

While it remains to be seen if a final nuclear agreement will be signed in July—especially as Iran's supreme leader, Ayatollah Ali Khamenei, cautioned that there was "no guarantee" of a deal—there is a growing recognition of Tehran's legitimate role in contributing to the future of the Middle East and, possibly, even the evolving world order. This is evident in Pakistan's overtures to engage Iran in resolving the Yemen conflict diplomatically, much to the chagrin of Islamabad's patrons in Riyadh, who are seeking a military resolution. Clearly, Tehran's voice will now resonate louder in the region.

Conclusion

The US hopes to integrate Central Asia with South Asia, as is clear from its support to the Turkmenistan-Afghanistan-Pakistan-India pipeline project. Is it not reasonable to expect that sooner than later both Iran and Afghanistan should be economically integrated with South Asia? While this might suit India, its troubled ties with Pakistan and the continuing instability in Afghanistan prevent a genuine integration between the two regions in the foreseeable future.

As all major players in West Asian and Central Asian region have severe differences among themselves in their respective perceptions of regional security, India is likely to remain distrustful of the efforts of those countries that are eager to limit the strategic influence of the US in Central Asia after its eventual exit from Afghanistan. What is sure is that India, China, Russia, the US, Iran and Pakistan all have perspectives and prescriptions that are diverse, and it is important that these are coordinated to significantly weaken the power of jihadist and extremist groups.

The India-centric security paradigm is deeply ingrained in Pakistan's military psyche as a conservatism that tolerates the intolerable. Chinese leadership, which has been shielding Pakistan from international scrutiny over its brazen support to terrorism, must be reminded that throughout the west Asian region, continuing violence and instability have helped the fortunes of jihadist groups. As

there are more violent groups seeking power in Afghanistan and the likelihood of disaffected Taliban getting attracted to the Islamic State is gradually increasing, Iran will have to re-position its earlier stance of throwing in its lot with Pakistan's dubious mediatory role.

India no longer discriminates significantly between the US, the EU, the countries of the The Association of Southeast Asian Nations, Russia, Israel, China, Iran, and even Pakistan as it is willing to do business with all. Power politics, religious or revolutionary ideology and moralising are considered undesirable for business, whereas economic linkages are seen to promote stability. But India seems to be caught up in a number of competing factors. And these factors leave India with rather difficult political choices in West Asia and Central Asia in the coming years as it is hazardous to predict the long-term consequences of nuclear deal with Iran.

For India, Iran is very important player in the region particularly because of its vast hydrocarbon reserves, substantial influence in Kabul, and current support to Iraq and Syria against the IS. Iran's continued isolation and chastisement does not serve any strategic purpose. A purposeful engagement with key countries having direct interest in the stability and security in the region can lend new effectiveness to India's international relations. Needless to say, Iran is one of those countries.

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