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India's Pursuit of Strategic and Economic Interests in Iran

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**INDIA'S PURSUIT OF STRATEGIC
AND ECONOMIC INTERESTS IN IRAN**

KADIRA PETHIYAGODA

BROOKINGS

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Kadira Pethiyagoda
Melbourne, September 2018

EXECUTIVE SUMMARY

Leaders of both India and Iran have long touted the two countries' unique and millennia-old connections. Today, the relationship is increasingly complex. In light of its nuclear program, Iran has become a state condemned and isolated by the United States, particularly under President Trump. It is also viewed as a major regional threat by several Gulf Arab neighbors and Israel. This has led to pressure on India to curb diplomatic ties with Iran. While pressures from India's allies have stymied its relations with Tehran, Delhi has never completely curtailed engagement.

A breadth of realist and material interests can be found underpinning India's foreign policy toward Iran. Iran can play an important role in India's strategic and economic ambitions, allowing it to expand its power beyond its immediate neighborhoods and rise to great power status. Iran grants India an access to Afghanistan and Central Asia and can help mitigate China's growing influence among India's neighbors. India is pursuing connectivity initiatives like the Chabahar Port, though these face challenges. Such efforts align with India's quest to reduce Pakistani influence in Afghanistan, combat extremist groups, and break a strategic encirclement by China. Indeed, India and China are currently competing for influence in Iran.

Nonetheless, external pressures and internal challenges have constrained Delhi's relations with Tehran. The Iran nuclear program and the period of Western-imposed sanctions provides an example of opposing forces affecting the decision-making of Indian policymakers. Although Delhi's approach may appear inconsistent at times, it is justified as being in line with its doctrine of strategic autonomy. During Iran's sanctions, trade in energy between the two states varied before diving to a low in 2015. India and Iran faced challenges in processing payment transactions. Today, the effect of President Trump's withdrawal from the Iran nuclear deal on Iran-India relations will likely depend on the resilience of direct banking channels between the two countries and how successful they are at finding effective alternatives.

Economically, Iran is a significant source of energy to India, as well as a possible avenue to access markets in neighboring countries. Therefore, any attempt to

understand the nature of Indo-Iranian ties and their likely future trajectory requires understanding the geopolitical and economic factors which shape India's approach. This necessitates a sober, realistic appraisal of both the forces that drive the two countries together and those that push them apart.

INTRODUCTION

“FEW PEOPLE HAVE BEEN MORE CLOSELY RELATED IN ORIGIN AND THROUGHOUT HISTORY THAN THE PEOPLE OF INDIA AND THE PEOPLE OF IRAN.”

— JAWAHARLAL NEHRU, INDIA’S FIRST PRIME MINISTER.¹

India’s ascendance into world affairs has led to more complex bilateral relationships, and this is especially the case with the Islamic Republic of Iran. As the United States becomes an increasingly significant partner to India, it is necessary that policymakers better understand which factors and strategies shape India’s approach to foreign policy, and more specifically, the issues that shape its relationship with Iran.

Cultural and historical ties, which stretch back millennia, provide some important insights that help in analyzing India-Iran relations. In modern times, this has been complemented by a plethora of realist, materialist interests. Tehran is relevant to Delhi’s primary foreign policy priorities, both strategic and economic. Iran has the potential to play an important role in India’s overarching strategic goal of expanding its power beyond its immediate neighborhood and rising to great power status.²

In terms of strategic considerations, Delhi sees Iran as a gateway to Afghanistan and Central Asia. India seeks to compete with Pakistan and China for influence within Tehran itself. Simultaneously, it aims to expand its reach in Central Asia and the Indian Ocean through Tehran. On the economic side, India’s primary objective is to increase development and bring its people out of poverty. Within this framework, Iran is a significant energy partner and an important window to markets in neighboring countries.

At the same time, Iran is a state condemned and isolated by the United States, particularly under President Donald Trump. It is also viewed as a major regional threat by several Gulf Arab neighbors. This has led to pressure on India to curb diplomatic ties with Iran. While these pressures from India’s other allies have stymied its relations with Tehran, Delhi has never completely curtailed engagement.

In fact, the Iran nuclear program and the period of Western-imposed sanctions under the Bush and Obama administrations provide an example of the interaction between India's foreign policy interests and principles. Delhi took an approach that may have appeared inconsistent in an attempt to commit to its doctrine of strategic autonomy. This translated into India continuing economic ties with Iran at times, while also providing diplomatic support for certain Western moves against Tehran. At other points, it challenged the Western position.

Additionally, in pursuit of its interests in Iran, India has faced and continues to face direct bilateral challenges. In particular, there have been roadblocks in negotiations on energy trade and delays in cooperation on the strategic Chabahar port, based in southeastern Iran. In the current international climate, the India-Iran relationship is experiencing acute strains, given the U.S. withdrawal from the JCPOA and the intensification of pressures on Iran. Nonetheless, India will continue along its doctrine of strategic autonomy while balancing its interests among its various allies.

HISTORICAL AND CULTURAL CONNECTIONS

India has arguably longer historical ties with Iran than any other country outside South Asia. Although the direct impact of cultural ties on present-day relations is often difficult to measure, they provide a background and context to better comprehend the economic and strategic factors that shape the Indo-Iranian relationship.

Indian culture has imbued the country's foreign policy with certain principles. These include values such as pluralism, which allows an acceptance of various regime types, respect for sovereignty, and non-interference in the internal affairs of other states.³ This helps to explain how the Indian political leadership views Iran's system of theocracy, which comes with limited civic and political rights. Indian culture has thus helped underpin a tendency toward an independent foreign policy and a doctrine of strategic autonomy.

Nevertheless, in the post-independence period, India's ties with Iran were complicated by the fact that Iran was the first state to recognize Pakistan. During the Cold War, when Iran was led by Shah Mohammad Reza Pahlavi, India and Iran were in opposing geopolitical camps. Pahlavi was firmly rooted in the U.S. bloc, while India remained, somewhat unofficially, allied with the Soviet Union. Alex Vatanka argues that Iran and Pakistan were partners in regional politics and that the Shah was a factor in keeping Pakistan within the U.S. bloc.⁴

Former Indian policymakers suggest that India-Iran ties were closest during the mid-1990s when both countries supported the Afghan Northern Alliance during Afghanistan's civil war against the Pakistan-backed Mujahedeen.⁵ India allied with Iran, Pakistan's neighbor. Pakistan allied with Iran's neighbors in the Gulf. Earlier, India, as a friend of the USSR, backed the pro-Soviet government in Afghanistan, while Pakistan played an integral role in assisting the Western and Saudi-backed Mujahedeen. Even though Iran called for the Soviets to leave Afghanistan, it refused to become a frontline state against the Soviet occupation and refrained from participating in the "Washington-Islamabad-Riyadh" axis.⁶

WHAT GEOPOLITICAL FACTORS DRIVE INDIA'S IRAN POLICY TODAY?

Today, India's policies toward Iran are partially determined by the latter's utility in furthering Delhi's greatest policy objectives: to rise to great power status through the use of diplomatic influence and soft power, to expand military power beyond its region, and to develop its economy.⁷ This translates to both economic and strategic interests. While India is increasing ties with the United States, it still ultimately seeks to progress toward an "equitable international order" and a "truly multipolar world, with India as one of the poles."⁸ In this goal of ending unipolarity, Iran and India's long-term agendas align to some extent—though this manifests more obviously in relation to Tehran with its clear preference for reducing the United States' power in the region.⁹

The 2001 Tehran Declaration and the 2003 Delhi Declaration further enhanced the relationship between the two countries, providing structure to economic cooperation.¹⁰ The pragmatic pursuit of interests accelerated under India's Prime Minister Narendra Modi, who came to power in 2014.¹¹ In May 2016, Modi visited Iran and signed 12 memorandums of understanding (MOU) signaling enhanced cooperation in a large range of areas, including policy dialogue between foreign ministries and engagement on matters as diverse as cultural relations, mining, and infrastructure.¹²

It is likely that, as India expands its military power and reach, strategic interests and bilateral ties will increase. In 2016, Modi and Iranian President Hassan Rouhani highlighted a broad geopolitical alignment, based on the principle that "all countries must be able to pursue the aspirations of their people for peace and prosperity in the international system."¹³ While this language may seem like typical diplomatic niceties, it is distinctly reflective of the Non-Aligned Movement, emphasizing equal sovereignty, peace, and non-interference.

SECURITY AND DEFENSE COOPERATION

India and Iran share an interest in maintaining a stable Central Asia and combating militant groups, including those based in Pakistan.¹⁴ In the last decade or so, the Indian and Iranian governments proclaimed new military ties to their domestic audiences. Early on, the two states engaged in defense cooperation in forms that

concerned Washington, including what appeared to be “nuclear, chemical, and missile-related transfers.”¹⁵ By 2010, it was reported that Tehran continued to view Delhi as a source of assistance for servicing a variety of Russian military hardware including MiG fighter jets, tanks, warships, and submarines.¹⁶

The 2015–16, the Indian Ministry of External Affairs (MEA) Annual Report stated that India sees Iran as an important country in its immediate security space.¹⁷ The two countries have cooperated on maritime security, including at the Indian Ocean Rim Association meeting in Chabahar. During Modi’s visit to Iran, the two leaders supported regular and institutionalized consultation between their countries’ national security councils on security, terrorism, and organized crime. India and Iran agreed to intensify high-level engagement through frequent exchanges of official visits and meetings.¹⁸ Therefore, defense and diplomatic relations may be qualitatively greater than they seem.¹⁹

A core component of India’s interests in Iran is its location. Iran can provide India access to Central Asia and Afghanistan without having to traverse China or Pakistan. Additionally, greater Indian presence in Central Asia could limit Pakistan’s influence and help India compete with China’s growing presence in the region.²⁰ Delhi considers Tehran a significant part of its extended neighborhood, where it aims to be perceived as a supra-regional power. This area stretches from the Strait of Hormuz in the west to Central Asia in the north. India’s supra-regional objectives align with the country’s public opinion and represent a key interest for Indian policymakers.²¹ Also, an Indian presence or strategic influence in Central Asia would help deny Pakistan strategic depth and allow Delhi to compete with China’s growing regional presence.²²

CHABAHAR PORT

The most visible manifestation of India’s capitalization on Iran’s geographic position is the Chabahar port complex—an important factor in bilateral ties. The complex is located in southeastern Iran’s Sistan-Baluchistan region, close to the western Indian ports of Kandla, Mundra, and Mumbai. It has been operational since 1983 and consists of two ports, Shahid Beheshti and Shahid Kalantari, with ten berths overall.

Chabahar has the potential to advance India’s geopolitical interests, allowing it to gain greater interdependency with Central Asia, where it competes with Pakistan. The port would also enable Delhi to monitor Pakistan, increasing its ability to launch subversive operations against its rival given the presence of Indian engineers, alongside military and intelligence officers, in Chabahar.²³ Additionally, in the event of conflict-blocking the Strait of Hormuz, Chabahar would provide India direct access to Iranian energy.²⁴

FIGURE 1: CHABAHAR PORT



Source: Brookings Doha Center, 2018

Chabahar also offers India important economic benefits. In the short-term, the port would strengthen India's oil trade with Iran by lowering transportation costs, and would establish greater connectivity in the long-term, facilitating more comprehensive trade. Beyond Iran, financing and developing Chabahar would help India become more integral to Central Asia's economy.²⁵ The port would also help Indian farmers obtain cheaper access to fertilizers and other commodities from the sub-region.²⁶

Chabahar provides an opportunity for India to get linked to the International North-South Transport Corridor, allowing it further access not only to Central Asia but also to Russia and Europe. The corridor bypasses Pakistan and represents a centerpiece that would increase India's political proximity to the Iranian, Russian, and Central Asian governments. It acts as a counter to the U.S. pipeline programs that exclude Tehran and Moscow.²⁷ Delhi has already spent \$100 million to construct the 135-mile Zaranj to Delaram road from the Iran-Afghan border to inside Afghanistan. It is also planning a railway link from Chabahar to Zahedan, as part of a regional transit corridor.²⁸

In 2003, India agreed to develop the Shahid Beheshti port, in part because Pakistan blocked its access to Afghanistan. However, development did not

materialize due to the imposition of sanctions.²⁹ In 2015, India set aside \$235 million for developing the port, with an initial payment of \$150 million. This was delayed, apparently because the Iranians introduced a new local stakeholder, thereby changing the terms and conditions without consulting India.³⁰

Even more recently, Modi inked a trilateral agreement with Tehran, establishing Chabahar-linked transport and transit corridors between India, Iran, and Afghanistan. This accord enabled Indian goods to be delivered to Afghanistan, via Iran. It was hailed as “multi-cornered cooperation” that would contribute to development, peace, and stability in Afghanistan and throughout the region.³¹ India and Iran confirmed their commitment to working together for a prosperous future by developing functional corridors under set timelines.

In May 2016, India agreed to invest up to \$635 million in the infrastructural development of Chabahar. This included the development of two berths over a period of 18 months, which would increase the port’s capacity from 2.5 million to 8 million tons at a cost of \$85 million.³² Later, Iran invited India to invest as much as \$8 billion into the country.³³ Proposals were put forth to help build further terminals and railway connections, an area in which China maintains an advantage over India.³⁴ By 2017, however, delays due to Iran’s failure to supply a proposal meant that India had still not released money for the development of the port.³⁵

Future challenges are likely to further impede progress due to Iranian concerns regarding over-dependence on India, and because Delhi’s interests may not fully align with Tehran’s hopes for Chabahar in the long-term. Tehran does not want Chabahar to harm its important relationships with Beijing and Islamabad. Iran has made statements that the port is not aimed against any other powers, though states like Pakistan have disputed this claim.³⁶ After Modi’s visit in 2016, Iran’s ambassador to Pakistan held that the port agreement was not finalized and that development was not limited to India and Afghanistan. He insisted that both Pakistan and China were welcome to invest in Chabahar.³⁷

PAKISTAN, AFGHANISTAN, AND INDIA’S COUNTERTERRORISM EFFORTS

India, Iran, Pakistan, and Afghanistan have engaged in a quadrilateral dance, regularly hedging and reassessing their strategic positions. This includes Indian overtures toward Iran and Afghanistan motivated in part by a strategic interest in combating Pakistani power.

Pakistan has traditionally sought to prevent India from trading freely with Afghanistan.³⁸ The national general secretary of the Janata Party stated that India would “use economics, strategy, and emotional ties to win the hearts of Islamabad’s friends,” something which can apply to neighboring states like Afghanistan and Iran.³⁹

Tehran has influence in Pakistan, given their shared border and Pakistan's large Shiite population. In 2006, some estimates claimed that there were up to 30 million Shiites in Pakistan, making it the second largest Shiite country after Iran.⁴⁰ Shiites were heavily represented among Pakistani leadership post-independence, and the country's founder Muhammad Ali Jinnah was born Shiite. Their influence over Pakistani politics, however, is complicated. Despite their size, Shiites in Pakistan have not been able to escape violent attacks against members of their community—particularly the Hazaras—by non-state actors.⁴¹

Afghanistan depends on Pakistan for much of its trade.⁴² It is this dependency that both Kabul and Delhi seek to dislodge via Chabahar in Iran, without traversing Islamabad.⁴³ For instance, in a joint statement following Modi's recent visit to Tehran, India and Iran discussed trilateral cooperation with Afghanistan and the importance of the Chabahar port.⁴⁴ The joint statement gave Afghanistan "assured and alternative access" to regional markets.⁴⁵

Iran and India also have converging security interests aimed at combating extremist groups in Pakistan. Tehran has been critical of Islamabad's inability to rein in anti-Iran militants within Pakistani territory. It even accused Pakistani intelligence of aiding Baloch separatists in Iran.⁴⁶ On several occasions, Tehran has engaged in limited cross-border raids into Pakistani territory.⁴⁷ In this context, Delhi and Tehran have established working groups to collaborate on counterterrorism activities.⁴⁸

In recent decades, India has played a contentious role in Iran-Pakistan relations. Islamabad expressed its concern that India's foreign intelligence unit, the Research and Analysis Wing, allegedly used Iranian territory for operations in Balochistan. This reflects a complex and challenging relationship that is unfolding between Iran and Pakistan, partly due to Islamabad's desire not to offend its ally, Saudi Arabia.⁴⁹

Iran is essential to India's efforts to counter the Sino-Pakistani partnership. Strengthening linkages with Iran may increase Indo-Pakistani tensions by fanning fears that India is progressing in its efforts to encircle and isolate the country. This could encourage Islamabad to undertake greater cooperation with India's rivals. Such an assessment was made by Pakistan's former ambassador to the United Nations, Munir Akram. Akram argued that India has been working with Iran to balance China's Belt and Road Initiative, which includes an economic corridor between China and Pakistan. He also posited that this may spur closer cooperation between Islamabad and Beijing, Riyadh, and Istanbul.⁵⁰ Pakistanis may also fear that India's presence in Chabahar enables India to monitor Pakistan's port city of Gwadar.⁵¹

Tehran's quest for leadership within the Islamic world prevents it from supporting India against Pakistan in international forums like the Organisation of Islamic Cooperation, including on issues such as Kashmir. In addition to this, Pakistan contributes significant manpower to the armed forces of Iran's Gulf rivals, further increasing the imperative for Tehran to maintain the friendship with, and gain greater leverage over, Islamabad. Chabahar itself is described as a "sister city" to Gwadar, with Iran and Pakistan increasing connectivity through a rail link and other projects under a Chabahar-Gwadar MoU.⁵² Indian policymakers are likely sensitive to this dynamic and understand the limits they face in asking Iran to pursue policies which may aggravate Islamabad.

COMPETING WITH CHINA

For China, Iran is a key energy source and strategic partner that Beijing may seek to have greater influence over in the future. Tehran fits into Beijing's plan to create a chain of partnerships from Asia to the Middle East and Europe in its Belt and Road Initiative. Iran is also an important ally in a Middle East region which China depends on for its energy, but where most major regional powers are still strategically closer to the United States.

Consequently, China presents another key strategic factor informing India's relations with Iran. Some Indian policymakers fear that a string of states, including India's neighbors like Bangladesh and Sri Lanka, are increasingly being influenced by China through the Belt and Road Initiative.⁵³ Growing its influence in Tehran can enable Delhi to break free of this perceived strategic encirclement. Iran's location also increases its value to India due to Delhi's growing strategic competition with China in the Indian Ocean and the broader Indo-Pacific, where traditional spheres of influence are being challenged.⁵⁴

Beijing's long-time strategic partnership with Pakistan represents a major security threat to India. China's investment in the Pakistani port of Gwadar has increased India's interest in the Chabahar port, which is located around 62 miles away. Beijing planned to inject \$45 billion into the China-Pakistan economic corridor, and allegedly \$14 billion had been spent by September 2017.⁵⁵

Officials have described how Indian projects often faced delays due to bureaucracy, which is not an issue for China. This assertion has been echoed by several analysts.⁵⁶ On the other hand, China's reputation as a partner has been hurt by criticism that Chinese projects are undertaken on terms that can trap host countries into debt, providing Beijing strategic leverage over the host state.⁵⁷

The Sino-Indian strategic competition is likely to be exploited by Tehran.⁵⁸ China has acted as one of Iran's most powerful defenders against the West.

Beijing opposed and resisted Western sanctions against Tehran. Its veto power at the Security Council forced Western countries to water down their most sweeping resolution against the country, one which aimed to establish and increase sanctions.⁵⁹ Beijing even deepened trade ties with Iran after the United States and EU tightened sanctions in 2012.⁶⁰

Therefore, China has been critical to the Iranian economy. In 2015, Beijing was Iran's largest trading and investment partner with trade at \$52 billion, more than triple India's \$16 billion.⁶¹ Currently, China is the largest export market for Iranian oil.⁶² Even with regard to Chabahar, there is a risk that China may become the largest investor in the port given India's delays according to Ranjit Gupta, former Indian ambassador to Yemen and Oman. He added that Beijing was more capable than India of bypassing Western sanctions should they be reinstated.⁶³

THE BALANCING ACT

India faces certain challenges in terms of balancing interests and ties between Iran and other states.

THE UNITED STATES

India's growing ties with the United States helps shape how Delhi approaches its interests in Iran. While India and the United States share many strategic objectives in East Asia, there are significant differences in goals and perceptions of the region west of India. These include ties to Iran, and relatedly, hopes for Afghanistan.⁶⁴

India-Iran relations constitute a key area of contention between New Delhi and Washington.⁶⁵ To some degree, this has caused Delhi to slow engagement with Tehran. During the period of Western sanctions on Iran, India cooperated with Washington to some degree, such as its reduction of Iranian oil imports. This was enough to satisfy a bipartisan congressional report.⁶⁶ U.S.-led restrictions reduced India's oil imports from Iran, while also impeding Delhi's ability to pay Iran for the oil it did purchase.⁶⁷

Indo-Iranian ties faced pressure during negotiations for the India-U.S. nuclear deal, which took place between 2005 and 2008.⁶⁸ The United States agreed to grant India full civil nuclear cooperation in exchange for separating its civil and military nuclear programs. For India, this meant economic benefits as well as a symbolic victory; India was recognized as a legitimate nuclear power by the global hegemon. For America, the deal strengthened ties with one of the world's major rising powers and acted as a counterweight to China. Sanjaya Baru, chief spokesperson and media advisor to former Prime Minister Manmohan Singh, described this as the lowest point in Indo-Iranian relations, as former Iranian President Mahmoud Ahmadinejad criticized India's accord with the United States.⁶⁹

Some degree of compliance with U.S. preferences regarding Iran seemed to continue under the Modi government. In 2016, during the Indian prime minister's visit to Iran, U.S. lawmakers questioned Delhi's readiness to sign a

formal security cooperation agreement with Washington. The State Department responded that the U.S. government had clearly conveyed its concerns and that Delhi had been “very responsive...to our briefings” and “to what we believe the lines are.”⁷⁰ The Chabahar port was tolerated by Washington due to its role as a counterweight to China’s Gwadar port in Pakistan, which is considered superior in trade capacity for the Sistan-Baluchistan region.⁷¹

ISRAEL

The U.S. attitude toward Indo-Iranian ties is also influenced by Israel’s interests.⁷² Tel Aviv has significant concerns regarding Indo-Iranian ties. This is partly because Israel is one of India’s top arms suppliers. In 2003 and 2004, the United States and Israel urged India to minimize defense, energy, and strategic relations with Iran.⁷³ During the Israeli president’s visit to India in 2016, Tel Aviv publicly stated its concerns regarding India’s friendship with Iran. Israeli media felt the need to publish assurances by Modi that India would oppose Iranian attempts to harm the Jewish state.⁷⁴ Israel’s concerns created further incentives for the United States to persuade India to reduce its Iran ties.

An alleged Iranian attack on an Israeli diplomat in New Delhi in 2012, in retaliation for the alleged Israeli assassinations of Iranian nuclear scientists, further increased pressure on India. Consequently, the Indian foreign minister condemned the incident.⁷⁵

India maintains an approach of developing strategic ties simultaneously with Iran, the United States, and Israel, in line with its principle of “strategic autonomy.”⁷⁶ This means that Delhi pursues its interests through ties with multiple powers, regardless of their animosity toward each other. No other major power simultaneously maintains such friendly ties to all three of these states. India’s use of an “omnidirectional foreign policy,”⁷⁷ and its enhancement of ties concurrently with an “amazing number” of regional players, may in part reflect Delhi’s diverse array of security interests, which continue to increase.⁷⁸ Its need to purchase military technology helps drive ties with the United States and Israel. It shares interests in stability in Central Asia with Iran and an interest in fighting terrorism with all three countries.

Delhi’s approach of walking both sides was also demonstrated during the period when the Bush and Singh administrations were attempting to persuade the U.S. Congress to adopt legislation in favor of the India-U.S. nuclear deal. Much of this occurred when the Iran nuclear crisis was deepening. Washington politicians expected India to lean more toward U.S. positions on global affairs as a result, and there was increased U.S. scrutiny of India’s Iran relationship. Former Indian security officials noted their awareness that the deal was framed to the American

public, to a significant degree, as intrinsically linked to Washington's ability to exert more influence over India's relations with Iran, a state that was then described as a member of the "axis of evil."⁷⁹

VOTES

One of the key International Atomic Energy Agency (IAEA) votes on Iran's nuclear program occurred during the period of negotiations for the India-U.S. nuclear deal. India's failure to vote with the United States would have jeopardized congressional passage of the deal. Baru stated that "we were under significant pressure from the United States at the time to prove our friendship."⁸⁰ Despite this, India attempted to maintain its characteristic friend-to-all image, while trying to follow its doctrine of strategic autonomy.

Delhi was, at times, vocal in its defense of Iran and its bilateral relationship. In addition to Delhi's need for Iranian oil, India's positions were in line with the Non-Aligned Movement and Delhi's historical stance that international nuclear non-proliferation initiatives were disproportionately burdening developing countries.⁸¹ However, in September 2005, India voted with Washington on a resolution finding Iran to be non-compliant. This marked a shift from its previous position, which challenged the United States. In fact, India and other states pressured the EU-3 (U.K., France, and Germany) to keep the issue at the IAEA rather than refer it to the U.N. Security Council. Furthermore, India's official statement explaining its vote seemed to highlight how Delhi's position differed from that of Washington:

In our Explanation of Vote, we have clearly expressed our opposition to Iran being declared as noncompliant with its safeguards agreements. Nor do we agree that the current situation could constitute a threat to international peace and security. Nevertheless, the resolution does not refer the matter to the Security Council and has agreed that outstanding issues be dealt with under the aegis of the IAEA itself ... and therefore, we have extended our support.⁸²

Later, when India voted to refer Iran to the Security Council in February 2006, it issued a similar disclaimer:

While there will be a report to the Security Council, the Iran nuclear issue remains within the purview of the IAEA. It has been our consistent position that confrontation should be avoided and any outstanding issue ought to be resolved through dialogue... Our vote in favor of the Resolution should not be interpreted as in any way detracting from the traditionally close and friendly relations we enjoy with Iran.⁸³

Singh argued to the Indian parliament that “as a signatory to the Non-Proliferation Treaty, Iran has the legal right to develop peaceful uses of nuclear energy consistent with its international commitments and obligations.” He also added that Iran should “exercise these rights in the context of safeguards that it has voluntarily accepted upon its nuclear program under the IAEA.”⁸⁴ Later in 2006, India joined with Non-Aligned Movement states in issuing a statement on Iran’s nuclear program, affirming the “basic inalienable right of all states, to develop research, production, and use of atomic energy for peaceful purposes without any discrimination and in conformity with their respective legal obligation.”⁸⁵ The Indian government faced criticism from Western media and pro-Western quarters within India for not adequately supporting U.S. positions.

U.S. AND EU SANCTIONS ON IRAN

In December 2006, the Security Council passed resolution 1737, imposing sanctions on Iran for its uranium enrichment.⁸⁶ These limited measures involved banning the export of nuclear-related technology and materials to Iran and freezing the assets of entities related to Tehran’s enrichment program. India upheld these sanctions. As previously mentioned, the United States and EU maintained far-reaching sanctions against Iran that impacted India’s energy trade. Unlike the U.N. sanctions, Delhi viewed those sanctions as unilateral. Hence, Delhi’s decision to continue trade ties with Tehran was not in violation of international norms.⁸⁷

India complied with Western sanctions enough to satisfy Delhi’s supporters in the U.S. government and media, even though it resisted sanctions at other points.⁸⁸ For instance, India sought alternative banking channels to continue energy trade, rather than stopping imports from Iran, as preferred by Washington. India and Iran thus resorted to using a German bank to process payments, but pressure from the German government forced the bank to halt the practice. India later made some additional efforts to circumvent sanctions, such as by attempting to use banks in the United Arab Emirates or Turkey.⁸⁹ The two states had also resorted to using Indian rupees as a currency for payment, benefiting India.⁹⁰ In spite of these attempts to avoid sanctions and continue trade, the Indo-Iranian shipping venture, Irano-Hind, which ran oil tankers and bulk vessels for 38 years, shut down in 2013 due to Western and U.N. sanctions. The company subsequently faced challenges finding new business.⁹¹

Nonetheless, India’s resistance was highly regarded by President Hassan Rouhani, who praised Delhi’s stand and its “support for close cooperation” during the sanctions period.⁹²

India's resistance to sanctions may have slowed the India-U.S. nuclear deal.⁹³ Interestingly, the Bush administration did not make ending India's ties to Iran a mandatory pre-requisite for the India-U.S. nuclear deal. The administration argued that India's Iran relationship would potentially give Washington greater influence. They saw the relationship as based on energy needs and therefore "benign" to U.S. interests.⁹⁴ The administration even stated that closer U.S.-India nuclear cooperation would help bring India into the "non-proliferation" mainstream.⁹⁵ It was also argued that it would reduce Delhi's reliance on Iranian energy and limit military cooperation between Delhi and Tehran.⁹⁶

India nevertheless maintained a position of strategic autonomy. It undertook joint naval training exercises with Iran during President Bush's regional visit.⁹⁷ The exercises were planned with full knowledge of the visit, suggesting a certain degree of conscious defiance of Washington's preferences.⁹⁸ In spite of these training exercises, the State Department briefed U.S. lawmakers that it had not seen any signs of Indo-Iranian military cooperation that would be of concern to the United States.⁹⁹ Following Obama's election and the subsequent Iran nuclear deal, there was a further easing of scrutiny of Indo-Iranian ties by Washington.¹⁰⁰

Recently, however, Trump's withdrawal from the JCPOA has increased uncertainty about Indian investments in Iran. U.S. Ambassador to the U.N. Nikki Haley's India visit in June sought to persuade New Delhi to halt Iranian oil imports by early November, ramping up the pressure. The United States' shift on Iran may be causing some tensions with India, despite the personal affinity between Modi and Trump. American rhetoric has already worried Indian officials who fear investments being held up by the return of sanctions.¹⁰¹

Nevertheless, Washington will continue to need India as a means to check Chinese power and influence—something that the Trump Administration sees as a far greater threat than Iran. Former Secretary of State Rex Tillerson stated that Washington would not block "legitimate" business activities between Iran and India. He added that there was "no contradiction" between U.S.-Iran sanctions and India's development of the Chabahar port.¹⁰²

European rejection of Trump's move could further mitigate some of India's fears. The re-election of Rouhani, perceived as a moderate political figure, may also help ease the task of justifying Delhi's relations to U.S. policymakers outside Trump's inner circle. Overall, with the coming sanctions regimes against Iran set to begin in August and November, the economic relationship between Iran and India will depend on the resilience of direct banking channels, given the impact previous sanctions have had on business transactions.¹⁰³

SAUDI ARABIA AND THE GULF STATES

India and Iran maintain very different relations with Gulf countries. As Delhi continues to increase strategic ties with states such as Saudi Arabia and the UAE, Tehran's relations with these states is at historic lows. Similar to its strategy toward the United States, India has nonetheless managed to increase ties independently with both Iranian and Saudi poles in the region. Over the last decade, India has augmented political engagement, security agreements, and defense cooperation with Gulf states.¹⁰⁴ This has occurred on top of Delhi's existing dependence on the Gulf for energy and remittances from labor exports. These priorities outweigh India's economic interests in Iran.

Under the influence of its new Crown Prince, Mohammed Bin Salman, Riyadh has elevated its rivalry with Tehran as a defining feature of its relations with other states. This has led to divisions within the Gulf Cooperation Council (GCC), such as the blockade against Qatar. Saudi Arabia and the UAE led the march to isolate Qatar, in part due to Doha's more independent approach to Iran. As a result, Riyadh has also taken steps toward normalizing relations with Iran's enemy, Israel. This may have implications for India's ability to continue its friend-to-all approach.

Delhi will be mindful of Saudi and Iranian sensitivities when dealing with either of these states. Former Ambassador Gupta stated that involvement in intraregional conflicts would only be of strategic benefit when India becomes a top-tier power. He contended that India's naval diplomacy and stronger ties with the Gulf should not be perceived as a threat to Iran.¹⁰⁵ Furthermore, involvement in intra-Muslim sectarian conflicts could undermine harmony amongst Muslims in India. It could also put India's migrant workers in the Middle East at risk.¹⁰⁶

ASSISTING INDIA'S PROSPERITY

Economic ties with Iran accelerated following the opening of India's economy in the early 1990s. India's economic interests in Iran center on energy and connectivity to the Central Asian region.¹⁰⁷ Iran also remains significant to India's objective of alleviating energy poverty, key to the latter's overarching goal of development.¹⁰⁸ Delhi's growing economy benefits from access to Iran's surplus hydrocarbon reserves and opportunities for investment in upstream oil and gas exploration.¹⁰⁹

OIL TRADE

Overall, Iranian exports to India followed the trends in oil trade, peaking in 2008 (\$13.8 billion) and 2012 (\$13.3 billion) and dropping to a low in 2015 (\$6.2 billion). These exports included: petroleum and its products, organic and inorganic chemicals, fertilizers, plastic, edible fruit and nuts, glass, pearls, and precious and semiprecious stones.

India is arguably one of the most energy-thirsty of all rising powers. In 2017, Iran provided 11.2 percent of India's crude oil imports, the third largest source after Iraq (18.6 percent) and Saudi Arabia (17.5 percent).¹¹⁰ Energy trade anchors the Indo-Iranian relationship, helping to ensure each country gives due consideration to the interests of the other.

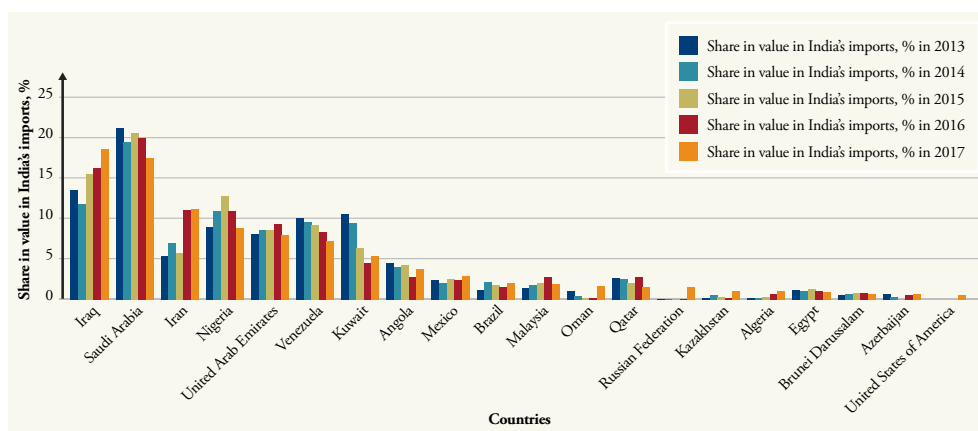
Prior to sanctions, Iran was India's second largest oil supplier. In 2006, India's crude oil imports from Iran sat at \$4.35 billion, 10 percent of total crude oil imports. In 2008, Iranian crude oil imports grew to \$11.2 billion. However, after sanctions had been imposed, they dropped down to \$3.7 billion in 2015.

The U.N. and EU sanctions were lifted in January 2016 following the conclusion of the Joint Comprehensive Plan of Action (JCPOA). After this, an arrangement was reached between Delhi and Tehran to process India's pending oil payments to Iran, unlocking \$6.4 billion installed funds.¹¹¹ India's imports of crude oil from Iran in 2016 grew to \$6.68 billion or 11 percent of total crude oil imports.

During the month of October 2016, Iran was India's top supplier.¹¹² Indian crude oil imports from Iran from April 2016 to February 2017 averaged

542,400 barrels per day, up from between 100,000 and 150,000 a decade ago.¹¹³ Additionally, India continues to be Iran's second-largest oil market. Comparison figures below show Iran's percentage share as an oil supplier rising in 2016–17 (see Figure 2 below).¹¹⁴

FIGURE 2: SOURCES OF INDIA'S OIL IMPORTS 2013–2017



The year 2016 also saw greater high-level engagement regarding energy trade. Modi's visit to Iran was preceded by the visit of India's Minister of State for Petroleum and Natural Gas.¹¹⁵

ENERGY

The energy relationship between India and Iran has a history of slow progress and disagreements. For instance, India was expected to develop the Farzad-B gas field after the Indian company, Oil and Natural Gas Corporation Limited (ONGC), was involved in its discovery, but development stopped when Western sanctions intensified in 2012. Then, in late 2016, Iran agreed to leave the gas field exclusively for Indian investment.¹¹⁶ However, the contract did not materialize due to major disagreements and repeated breakdowns in negotiations.¹¹⁷ In April 2017, India cut oil purchases suggesting limits to India's dependence on Iranian oil.¹¹⁸

In May 2017, Iran threatened to let Russia develop the Farzad-B gas field. Iranian officials stated that it was simultaneously pursuing multiple options for the field, but that negotiations with India continued.¹¹⁹ As of November 2017, it was reported that Tehran had awarded the field to Russia's Gazprom. Indian firms, meanwhile, have stated that they are also looking elsewhere to buy oil and gas assets.¹²⁰ Given India's early involvement in the field, this episode may have a negative long-term impact on relations and trust.¹²¹

An earlier deal had to be renegotiated between India and Iran due to crude price changes.¹²² The deal proposed that Iran supply 7.5 million tons of liquefied natural gas (LNG) per year to India. Furthermore, India had to withdraw from the Iran-Pakistan-India gas pipeline project due to sanctions and the India-U.S. nuclear deal. These challenging episodes reflect the complicated, multifaceted nature of the economic relationship. They reveal some of the structural impediments, such as the tendency of India and Iran to renegotiate deals, as well as the slowness and caution of Indian bureaucracy in progressing with them.¹²³ These impediments weigh down relations and undermine trust.

Despite India's efforts to diversify energy sources, it will remain reliant on Iran and other major energy suppliers.¹²⁴ In addition to buying oil, Delhi is also seeking to lock in its energy security via longer-term arrangements and strategic investments with suppliers.

OVERALL ECONOMIC ENGAGEMENT

Indian business groups have been important actors in advocating for more substantive ties with Iran.¹²⁵ The Confederation of Indian industry is set to open a regional office in Tehran and its Iranian counterpart may do the same in Delhi.¹²⁶ With Indian and Indian diaspora entrepreneurs excelling in the IT sector, Delhi and Tehran have expressed the desire for an information, communication, and technology zone in Chabahar. Likely mindful of this, Indian and Iranian central banks are undertaking technical discussions.¹²⁷

It is worth noting that the nature, strength, and effectiveness of these discussions will depend on the level and form of U.S. pressure applied. However, connectivity initiatives like Chabahar and the International North-South Transport Corridor may provide relatively sanctions-resistant channels for economic engagement.¹²⁸ These also include initiatives like the proposed U.N.-promoted rail link that passes from Bangladesh through India, Pakistan, Iran, and Turkey.¹²⁹

CONCLUSION

India and Iran have managed to foster a multifaceted relationship, anchored within a long history of cultural ties and affinity. For India, this relationship is governed by geopolitical and economic priorities that dictate the terms of bilateral ties, including energy trade, infrastructure development, and security cooperation. These priorities are, however complicated by conflicting partnerships, sanctions, unstable negotiations, and bureaucracy.

Geopolitically, Delhi sees a strong relationship with Tehran as a useful gateway to Central Asia, a potential partnership in counterterrorism, and a means to break a strategic encirclement by China and minimize the influence of Pakistan. The development of Iran's Chabahar port is a cornerstone of this multilayered strategy. India has sought to develop the port as means to bypass Pakistan, which can facilitate access not only to Iran but also to Afghanistan and Central Asia. These efforts relate to India's quest to reduce Pakistani influence in Afghanistan and to combat extremist groups—a goal that happens to align with Iran. Chabahar also creates a footing for India within a string of Chinese partnerships that surround the country.

Delhi's ties with Tehran are nevertheless balanced by India's interests in developing relations with Iran's adversaries, the United States, Israel, and some Arab Gulf states. This balance is increasingly tested by the sanctions and other diplomatic moves against Tehran. The tension was reflected in Delhi's voting along with Washington over Iran's nuclear program, though this was also underpinned by Delhi's own interest in preventing a nuclear Iran, in line with its general opposition to nuclear proliferation. Complications in India-Iran ties will only increase as India rises to great power status and its strategic interests expand to involve a larger number of foreign relationships. Similarly, Iran's amicable relations with China and Pakistan force it into its own balancing act between those partners and India.

Challenges have affected not only India's geopolitical ambitions but also its economic interests in Iran. Iran is a key energy exporter to India, as well as a potential gateway to markets in landlocked Afghanistan and Central Asia. Disputes between Delhi and Tehran have placed roadblocks in the path toward

closer economic cooperation. These challenges are rooted not only in conflicting partnerships but also in what some Indian diplomats perceive as Iran's propensity to renegotiate deals, as well as India's slow-moving bureaucracy. Ongoing delays in formalizing trade and investment agreements create a risk for Delhi. Other actors like China and Russia could gain a greater stake in infrastructure projects, such as the Chabahar port. When compounded together, these issues degrade trust between the two states. The re-election of Rouhani, as opposed to more hardline alternatives, however, bodes well for economic ties given the more confrontational approach of hardliners to trade issues, as seen with former President Ahmadinejad.

Delhi had to forfeit some of its interests in Iran during U.S. and EU-led sanctions against Tehran. Despite efforts to circumvent the sanctions, India and Iran faced challenges in processing payment of energy transactions at the height of U.S. and EU sanctions against Iran. This resulted in a drop-in trade that was only recovered when the sanctions were lifted post-JCPOA.

The United States had to some extent, up until recently, sought to respect India's interests in Iran. Former Secretary of State Rex Tillerson stated that Washington would not block legitimate business activities with Iran by India. He added that there was no contradiction between U.S.-Iran sanctions and India's development of Chabahar port.¹³⁰ The Trump Administration's withdrawal from the JCPOA, and renewal of sanctions has altered these dynamics. U.S. Ambassador to the United Nations Nikki Haley's India visit in June sought to persuade Delhi to halt Iranian oil imports by early November. Nevertheless, Washington's approach will be tempered by the U.S. need for India as means to check Chinese power and influence, which is something that American policymakers see as a far greater and more enduring threat than Iran.

For their part, Iran and India will again attempt to circumvent restrictions, likely through using national currencies rather than the U.S. dollar, but the success of these strategies is yet to be seen. European rejection of Trump's move, and U.S. interests in leveraging India to counter Chinese influence, can potentially facilitate India's ties to Iran.

India will be an important port of call for consultations regarding security issues in the Middle East that involve Iran. Delhi maintains a comparatively unique position as both a long-time friend of Iran and Gulf states, whilst also cultivating a burgeoning strategic relationship with the United States and Israel. This will likely continue in the medium term, despite being shaken by the Trump administration.¹³¹ Moreover, given India's importance for Iran as a market for its energy exports, American administrations, Trump and

post-Trump, may seek to use Delhi to gain negotiating leverage with Tehran on issues such as Iran's nuclear program and support for Hezbollah, Syrian President Bashar Assad, and the Houthis in Yemen. If so, India's strategic autonomy and perceived neutrality may have rewarded the country by increasing its value as a geopolitical partner.

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