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*Nataša Milenković*¹

India at the Iran–U.S. Crossroads

ABSTRACT

This paper examines the strategic rationale behind the strengthening of relations between India and Iran in recent period, as well as potential problems in relations with USA, caused by them. Namely, as India's global profile has strengthened during recent years, its relations with the United States have improved. Given the culmination of decade-long conflict between the U.S. and Iran, India will have to walk a fine line between these two forces. This article explores the factors that favor strengthening India's relations with Iran, as well as the factors that favor the preservation of strong relations with the U.S.

Key Words: Indo-Iranian relations, US-India relations, economic sanctions, oil trade, infrastructure projects, oil transit routes.

Introduction

After more than a half century of unrealized potential, India has grown into the economic, diplomatic, and military power. Modern India has the potential to become a key player in resolving the most critical issues of the twenty-first century.

As India's global profile has strengthened in recent period, its relations with the United States have improved. Though India has made enormous efforts to improve its relations with the United States, it has refused to let them dictate its foreign policy priorities. In January 2012, India has refused to comply with stricter sanctions against Iran, proposed by the United States and Europe. The reason named was that India could not afford to substantially cut back energy imports from Iran, which is the second largest oil supplier of India's growing economy and a traditional friend of the Indian nation.

Given the decade-long conflict between the U.S. and Iran, which culminated in the imposition of stringent sanctions to Iran, India has

¹ Nataša Milenković, PhD, Faculty of International Economics, Belgrade. Email: nmilenkovic@megatrend.edu.rs.

endeavored to balance carefully between carrying on the oil imports sourcing from Iran, and escalating pressure from the U.S. and Europe to adhere to more strict sanctions against the Iran.

This article explores the factors that favor strengthening Indian relations with Iran, as well as the factors that favor the preservation of its strong relations with the U.S. Based on its relatively good relations with both countries, India can take the role of the peacemaker, particularly because that would bring to the best outcome for India's enlightened self-interest.

Rationales for Strengthening Relations with Iran

Since there are many economic, geo-economic, and security factors that indicate the need for stronger India-Iran bilateral relations, re-evaluation of their relations is long overdue. The current India's pragmatic approach to bilateral trade with Iran represents the national interest of both, India and Iran.

Iran and India have many bilateral economic and political convergences that are rooted in the geopolitical and economic interests of the two countries, and are neither related to the current state of Iran-U.S. relations, neither to the nature of the Teheran regime.

The Islamic Linkage

While India's relations with its Muslims in the plains have been deteriorating, in recent years, the Kashmir dispute increasingly became intertwined with Hindu-Muslim politics in the Indian hinterland. India is therefore compelled to improve its relations with countries of the Muslim world. India sees Iran as an influential Islamic state that can effectively counter Pakistan's anti-India propaganda in the Islamic world. Iran views India as a nation that can be helpful in fostering a "dialogue between civilizations," which Khatami promoted, as opposed to the "clash of civilization" thesis emanating from the West.

India's relations with Iran have also been significantly shaped by Iran's solidarity with the Indian Muslim population. India has the largest number of Shia Muslims in the world after Iran. The Muslims are about 12% of India's population, but their influence on the Indian society was much stronger. The main reason was a large number of Muslims rulers in different parts of India. India's Shia population counts 25 million, and has always been an important factor in India's interaction with Iran. Therefore, every Indian government that acted against Iran's interests, would have a great internal political constraints.

Both states, Iran and India are concerned about the festering Shia-Sunni strife in Pakistan.

Geopolitics

As an emerging regional power in Asia, India is naturally interested in any changes that may influence its own security, occurring within the region or in its neighborhood. New Delhi plays a natural role in shaping regional security arrangements to foster stability. The fact that India and Iran share same interests concerning many regional problems is extremely important for the stability of this part of the world. They have common attitudes on situation in Afghanistan, Pakistan and Iraq.

Peace and stability in Central and Western Asia is vital for India's security. The issue of Central Asian security is, as well, closely related to the peace in Afghanistan and at the Indian subcontinent. India and Iran share hostility against Taliban and, together with Russia, they were the main supporters of the anti-Taliban Northern Alliance, which confronted the Pakistan-backed Taliban regime in Afghanistan in 2001. Pakistan's control of Afghanistan via the fundamentalist Taliban regime was not in the strategic interest of either state, and represented a threat to the regional stability of the entire region. India and Iran cooperated with the Northern Alliance well before such support became "accepted wisdom" after the events of .

India and Iran have signed the document *Tehran Declaration* in April 2001, the main purpose of which was to enhance bilateral cooperation, to share intelligence on al-Qaeda activities in Afghanistan, and to articulate their mutual interests in establishing a broad-based government in Afghanistan. Two countries, by signing this document, aimed at expressing their concerns over international terrorism and their mutual preferences for a comprehensive convention against international terrorism at the United Nations.

Given the still unstable situation in Afghanistan, continuous cooperation of India with Central Asian states, especially with Iran, is of great importance. "Even after the ouster of the Taliban from Afghanistan, India neither feels totally secure or comfortable about the reports of continuing attempts to destabilize Afghanistan, despite US presence in both Pakistan and Afghanistan".²

Although Iran and Pakistan are members of a number of Islamic groupings and share a larger Islamic identity, their relations are marked by increasing political and strategic tensions in recent times, and economic cooperation between the two has been neglected. This might favor India's bilateral relations with Iran.

² Ajay Patnaik, "Central Asia's Security: The Asian Dimension", in *India and Emerging Asia*, SAGE New Delhi, 2005. p. 222.

Economic and commercial partnership

Iran and India achieve the mutual benefit from economic cooperation in many areas. Their relations are likely to become increasingly important for both states in the near future.

Oil trade

During the 1990s, a policy of economic reform resulted in a period of sustained economic growth in India. India recorded the highest growth rates in the mid-2000's, and became one of the fastest-growing economies in the world. This expanded the country's demand for hydrocarbon energy sources. India is the fourth world largest oil consumer with an annual of 110 million tons of oil consumption and the fourth largest producer of and oil products. India's oil reserves meet only 25% of the country's domestic oil demand.

Iran, for its part, was endowed with one of the world's largest supplies of both, natural gas, and oil. Economic and commercial relations between India and Iran have traditionally been based on Indian import of Iranian crude oil.

Iran saw India as the natural export destination for its huge natural oil and gas reserves, while Iran is, after Saudi Arabia, India's second largest oil supplier. Iranian oil accounted for nearly 11 to 16% of India's crude oil imports. India imported about 22 million tons of crude oil valued at about \$ 10 billion in 2009-10, which makes it the third largest market for Iranian crude. „Energy interests, with Iran as a supplier and India as a consumer, cemented Indo-Iranian relations and motivated both states to explore ways of getting Iran's hydrocarbons to India's market“.³

If India complies with the sanctions on Iran and does not purchase Iranian oil, Iran will be desperate to find new markets for these products, and will have to turn to other limited producers to meet its oil needs. There is an assessment⁴ that such a development “will be followed by a doubling of the oil price and a consequent double effect on the economy of the country”.

Indian dependence on Iranian oil was the main reason mentioned for refusal to adhere to sanctions on Iranian oil. However, there is another reason concerning Indian oil import. India is seriously concerned about the Iranian announcement that, in the case of the oil export prohibition, this country would close the main link — Strait of Hormuz. India is dependent on oil and on the smooth functioning of the Indian Ocean shipping lines. In the case of closing Hormuz, India would face a problem of oil supply even from Saudi Arabia.

³ Christine Fair, “Indo-Iranian Relations: Prospects for Bilateral Cooperation Post-9-11” in *The Strategic Partnership Between India and Iran*, Asia program special report, Woodrow Wilson Center, 2004, p. 10.

⁴ Mir-Mahmoud Musavi in interview to IRD, 4. February 2012.

Foreign non-oil trade

India is the second Iranian main export partner, while Iran belongs to group of top 15 Indian trade partners. According to Department of Commerce, India-Iranian trade in 2009-10 amounted to U.S.\$ 13.4 billion. Indian exports amounted to U.S. \$ 1.9 billion, and imports to U.S.\$ 11.5 billion.

India's exports to Iran include petroleum products, rice, machinery & instruments, metal products, primary and semi-finished products of iron & steel, cereals, drugs/pharmaceuticals & fine chemicals, processed minerals, manmade yarn & fabrics, tea, organic and inorganic agro chemicals, rubber manufactured products, nuclear reactors, boilers, machinery and mechanical appliances. Iran sees in India a cost-effective source of high-technology inputs.

Iranian export to India, as it has been said, is mostly based on crude oil and ores. Still, India is the 5-th most important Iranian partner in terms of non-oil export. Recently, export of organic and inorganic chemicals fertilizers, plastic and articles thereof, has dramatically increased.

Both, export and import, increased with years (Table 1), except in the year 2009, when all export/import values across the world have dropped, due to World financial crisis.

Due to the compatibility of these economies, amount of their bilateral trade could be much higher. India's economy is based on services and high technology sectors, while Iran produces mostly primary sector's products. The main Iranian's export products are crude oil and gas (about 80% of export): however, Iran has more diversified economy. Iran has significant deposits of coal, iron ore, lead, zinc, chromium, uranium, and the world's second largest lode of copper. It's main industry, except petrochemicals, are fertilizers, car industry, pharmaceuticals, home appliances, electronics, telecom, energy, caustic soda, textiles, construction, cement and other construction materials, food processing (particularly sugar refining and vegetable oil production), ferrous and non-ferrous metal fabrication, armaments. Some of these goods have potential to be exported to India.

Table 1. Indian foreign trade with Iran

(values in U.S. \$)

Year	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
EXPORT	1,446.48	1,943.92	2,534.01	1,853.17	2,742.46
%Growth		34.39	30.36	-26.87	47.99
IMPORT	7,618.55	10,943.61	12,376.77	11,540.85	10,928.21
%Growth		43.64	13.1	-6.75	-5.31

Source: Department of commerce, India

In addition, small geographical distance and cheap connection by waterways represent additional potential for improving trade.

Military contacts between India and Iran have also increased in scale as a consequence of improved bilateral trade between the two states. While India is a major source of conventional military assistance for Iran, Iran is perceived as a major potential buyer of India's military hardware. The Iranian military urges to be modernized, and India can become its main source of modern arms and spare parts. Moreover, India can provide crucial technical assistance and training opportunities to the Iranian armed forces.

FDI – India was one of the leading countries to invest in Iran, but there are no precise and reliable data on numbers of projects and their values. The main destination sectors for foreign investment in the country have been chemicals, rubber and plastics industries, base metals, oil refining and gas distribution and tourism. Tata Steel is the leading Indian company with investments in steel plants in Iran. Indian oil companies such as OVL, Oil India and IOC have invested in the development of the Farsi oil and gas, as well as the South Pars gas field in Iran.

Some of the most important investment projects are in process, or planned, and are mostly directed to transportation infrastructure.

Infrastructure projects

Geo-strategic position of Iran enables it to play an important role in connecting India to Central Asia, militarily and strategically. Especially important for India is Iran's position at the crossroads of trading routes, and a possible export route for the natural resources of Central Asia. The shortest route from India to the Central Asian republics leads through Pakistan and Afghanistan, but New Delhi cannot use this route given its troubled relations with Islamabad. The potential for India and Central Asian trade has not been realized due to the Indian-Pakistan rivalry.

Due to such geo-strategic position of Iran, the above-mentioned Indian concerns about closing the Strait of Hormuz are well grounded and justified.

India and Iran are negotiating on setting up a number of infrastructure projects. By International North-South Corridor project, the two countries endeavor to establish a trade block consisting of India, Iran, Afghanistan, Bangladesh, Nepal, Sri Lanka, and Pakistan in order to promote trade and commerce in Central Asia. Other important projects are the IPI gas pipeline project, a long term annual supply of 5 million tons of LNG, development of the Farsi oil and gas blocks, South Pars gas field and LNG project, Chahbahar container terminal project, Chahbahar-Zaranj railway project, etc.

These are some of the most important benefits of these projects' realization for both countries.

North-South Corridor project

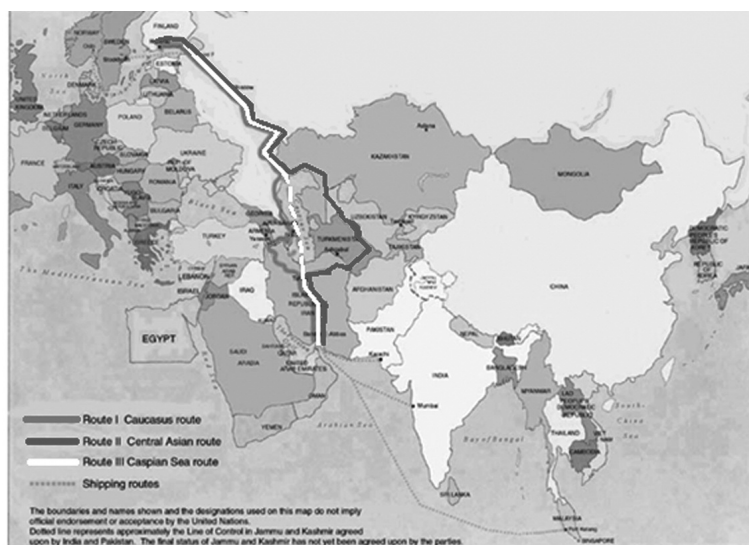
Creation and development of the international transport corridor (ITC) “North – South” was officially promoted in 2000 by Russian, Iranian and Indian representatives.

Due to unsafe transportation through Pakistan and Afghanistan, initiative of North-South Corridor is expected to reduce the cost and constrains of transit and transportation of goods. Linking the Indian commercial capital of Mumbai with the Iranian ports of Chabahar and Bandar Abbas by maritime transport, the North-South Corridor will then rely on road and rail networks to connect Chabahar port and Bandar Abbas with Central Asia and Afghanistan. The status of special economic zone of two ports located at the entry of the Persian Gulf offers a gateway for re-exports to and from Central Asia.

India and Iran have already made progress on their commitment to build a North-South Corridor with the participation of Russia.

“The relationship between India-Iran-Central Asia provides a new link which could transform the face of trade in the region. The corridor could evolve towards boosting trade between Central Asia and the world”.⁵

Map 1. Routes of North-South Corridor



UNESCAP⁶

⁵ Balooch, Mahmoud, “Iran and India’s Cooperation in Central Asia”, Central Asia-Caucasus Institute, China and Eurasia Forum Quarterly, Volume 7, No. 3, 2009. p. 26.

⁶ United Nations, ESCAP, <http://www.unescap.org/ttdw/common/tis/tar/nscorridor.asp>.

The **Trans-Asian Railway** is a part of the North-south corridor. This is a project of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Although origin and destination remain the same, three main transport routes were identified between Northern Europe and the Persian Gulf. The routing differs by the countries that each route will transit and by the combination of modes used to carry cargo from one end to the other.⁷ These routes, which are illustrated in Map 1, have been defined as follows:

- Route I, the Caucasus route
- Route II, the Central Asian route
- Route III, the Caspian Sea route

Routes II and III are especially useful for Indian trade with huge markets of Russia, Turkmenistan, Uzbekistan and Kazakhstan.

Very important for Indian trade with many Central Asian markets is a rail link between Iran and Turkmenistan, a part of the Route II, which enables India to bypass the Pakistan and Afghanistan route. This link has significantly improved cooperation between Iran and India. A tripartite agreement on international transit of goods between India, Iran and Turkmenistan was signed on February 1997 at Teheran.

India sees the opportunities for a “forward Policy” in Central Asia in developing road and rail access to Afghanistan through Iran. There is the prospect of joint development of new road and rail routes to Afghanistan and Central Asia through the Iranian port of Chabahar. This port, situated at the southwest corner of Iran, is the nodal point of a new trade corridor, through which India is hoping to win its access to Central Asia and Afghanistan.

India is actively involved in the development of the Chabahar port, which will give it access to the oil and gas resources in Iran and the Central Asian states. These developments would directly enable India to bypass the Pakistani blockade of its westward links, and restore efficient connections with Afghanistan, and through these, with Central Asia — a region that has become crucial for India’s perceptions of its future energy security. India has already invested into building a 200 km-long road from Nimroz province in Afghanistan to the Chabahar port, and has plans to build a 900 km of railroads to the mineral-rich Hajigak region of Afghanistan.

With the development of Chabahar port linking Uzbekistan, Afghanistan, Iran, and India, the future trade in this area is potentially destined to grow.

In addition to these strategic projects, India and Iran are discussing building a gas pipeline between the two countries along the bed of the Arabian Sea to bypass Pakistan, using the Chabahar port. **Iran-Pakistan-India (IPI)**, 2700 km,

⁷ United Nations, ESCAP, <http://www.unescap.org/ttdw/common/tis/tar/nscorridor.asp>.

pipeline is aimed at transferring gas from Iran's South Pars fields in the Persian Gulf to Pakistan's major cities of Karachi and Multan and then further to Delhi, with an estimated value of U.S. \$ 7.3 billion. As the natural gas comes from Iran via Pakistan, there are some serious security concerns.



Geopolitical monitor⁸

INDIA – USA

The U.S. Dominance

The U.S. Dominance is the factor with a dual, negative and positive, effect on the Indo-Iranian relations.

While the relations between United States and Russia, China, and India have improved in recent times, the U.S. posture toward Iran remains hostile. Given that the United States remains the primary player in the Middle East, India will inevitably have to cooperate with it in shaping its foreign policy toward Iran.

The United States has made their dissatisfaction with improving Indo-Iranian relations clear to the Indian government. Washington has also opposed the India

⁸ Geopolitical monitor, www.geopoliticalmonitor.com/india-in-talks-for-ipi-pipeline-project-3159.

–Iran gas pipeline deal, and has urged India to rethink this ambitious project. Besides that, Indian government is under considerable pressure concerning the nuclear pact, since the tensions between the United States and Iran have escalated.

As a counterweight to U.S. dominance, these countries have made attempts to upgrade their bilateral relations. “For certain sections of India’s political and strategic elite, this means opposing the United States in every possible global forum”.⁹

“Correspondence between Iran’s desire to end its international isolation by cultivating its relationship with other states and India’s desire to impart a degree of autonomy to its foreign policy has brought India and Iran close to each other in recent years.”¹⁰

Economic linkage USA

India has a negative foreign-trade balance with almost every important trade partner. Among the top 20 trade partners, India has a positive balance only in trade with U.S., Hong Kong, UK, and sometimes with United Arabian Emirates. U.S. is the second or the third most important market for Indian exports. It receives more than 10% of Indian goods, while Indian import from U.S. makes about 5% of Indian import.¹¹ In contrast, Indian export to Iran is about 1%, and import above 4%.¹²

Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has, in many ways, enabled India to achieve a certain degree of financial stability, growth, and development. According to the Office of the US Trade Representative, the U.S. is one of India’s top investors. In 2008, U.S. foreign direct investment in India was \$16.1 billion (a 10.8% increase over 2007), and \$18.6 billion in 2009, a 12.3% increase from 2008. The share of U.S. investment in total FDI in India is about 5,5%.¹³

The main sectors of the U.S. direct investment in India are the information, manufacturing, banking, professional, scientific, and technology services sectors.

⁹ Pant, Harsh, *Contemporary Debates in Indian Foreign and Security Policy*, Palgrave Macmillan, New York, 2008, p. 127.

¹⁰ Pant, Harsh, *Contemporary Debates in Indian Foreign and Security Policy*, Palgrave Macmillan, New York, 2008. p 116.

¹¹ Ministry of Commerce & Industry, Government Of India, *Export — Import Data*, <http://commerce.nic.in/eidb/Default.asp>.

¹² Ibid.

¹³ Ibid.

Indian FDI in the United States (stock) was \$4.4 billion in 2009,¹⁴ up 12.4% from 2008. India direct investment in the U.S. is primarily concentrated in the professional, scientific, and technology services sector.¹⁵

Therefore, for India it is very important to maintain good relations with the largest global economy.

Conclusion

Based on its relatively good and profitable relations with both, U.S. and Iran, India has tried to balance carefully between these two important global players. India must find its own balance between its domestic political imperatives, and its national strategic interests in shaping its policy toward Iran.

There are some practical solutions how to keep stability of oil supply and not to violate the sanctions against Iran. Some of them are already the subject of negotiation between India and Iran.

Indian refiners currently pay Iran through a Turkish bank, but the latest U.S. sanctions may soon make that impossible, and New Delhi is looking at alternatives. One of the suggested and accepted solutions from Indian side is paying Iranian oil with rupees. However, this is not a very helpful solution for Iran. The rupee is only partly convertible, which left Iran holding onto large amounts of a currency many other countries would be unwilling to accept.

Better solution would be to increase India's exports through large-scale projects in sectors identified as the most attractive for Indian FDI. These are the railway infrastructure, ports, mining, food processing, car industry, fertilizers and pharmaceuticals sectors, and other projects exports, which are not currently sanctioned. In this paper we have identified many common infrastructure projects of major importance for Indian commercial penetration into Central Asia and Russia: North-South Corridor project, Trans-Asian Railway, new transit route through Iran to Novorossiysk in Russia, the port of Chabahar, Iran-Pakistan-India pipeline etc. Therefore, it would be very useful to sustain Iranian oil supplies via "Oil for Projects" scheme in the face of stringent US and EU sanctions.

However, we believe that, in addition to access to oil supplies, there are many reasons why India should establish closer relations with Iran. Important group of rationales favoring Indo-Iranian relations are economic factors. First, there is a potential for improving bilateral trade, due to small geographical distance, and compatibility of their economies. Second, a large "space" for mutual foreign direct

¹⁴ Office of the US Trade Representative, www.ustr.gov/countries-regions/south-central-asia/india.

¹⁵ Ministry of Commerce & Industry, Government Of India, *Export — Import Data*, <http://commerce.nic.in/eidb/Default.asp>.

investment, and, third, there are many suggested and already initiated infrastructure projects of high importance in terms of commercial strategy.

Factors in favor of maintaining strong relations with the U.S. are massive American's foreign direct investment, and large amount of bilateral foreign trade.

Finding a way to resolve the tensions inherent in its policy toward Iran, and a way to balance its foreign policies between Iran and the USA, represents a major test for India, an emerging power in the international system.

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