

Adopting a 'wait and watch' approach

[Iranian President Hassan Rouhani's visit this month](#) was a subdued affair compared to Prime Minister Narendra Modi's visit to Tehran last May. The reason is the differing preoccupations in both countries. The future of the Iran- P5+1-European Union (EU) nuclear deal (Joint Comprehensive Plan of Action, or JCPOA), concluded in 2015, has a Damocles' sword hanging over it, given U.S. President Donald Trump's visceral opposition to it. In addition, Iran is focussed on developments in Syria and Yemen. For India, dealing with China's growing footprint in the Indo-Pacific and challenges in its immediate SAARC neighbourhood assume priority. Yet, there is a geographical dynamic that creates its compulsions for both countries.

It was geography that created the 2,000 years of cultural and civilisational connect that Mr. Modi had sought to highlight during his visit last year. During the 1950-60s, differences persisted on account of the Shah's pro-U.S. tilt, and after the 1979 revolution, it was the pro-Pakistan tilt. It was only during the late 1990s and the early years of the last decade that both countries achieved a degree of strategic convergence. India and Iran (together with Russia) cooperated in supporting the Northern Alliance in Afghanistan against the expanding role of the Pakistan-backed Taliban.

In 2003, President Mohammad Khatami was the chief guest at the Republic Day when the New Delhi Declaration was signed, flagging the role of Chabahar port in providing connectivity to Afghanistan and further into Central Asia. Then the times changed: The U.S. declared Iran as part of the 'axis of evil', as President Mahmoud Ahmadinejad accelerated Iran's nuclear enrichment programme leading to progressively more sanctions, and India's economic engagement with Iran was impacted. Simultaneously, India was pursuing its nuclear deal with the U.S. which was concluded in 2008. During this period, India's vote against Iran in the International Atomic Energy Agency (IAEA) generated unhappiness in Tehran. This is why it has taken 15 years for another Iranian presidential visit.

[With Mr. Trump, Iran's uncertainties](#) are increasing. The JCPOA, spearheaded by the Obama administration, eased sanctions, helping India increase its oil imports from Iran and reactivate work at Chabahar. In January, President Trump renewed the 120-day sanctions waiver but announced that this was the last time he was extending it. Therefore, when the current waiver ends on May 12, U.S. sanctions on Iran will snap back unless a new agreement is reached. This is highly unlikely.

Speaking at a public event on February 17 in New Delhi, Mr. Rouhani declared that Iran had faithfully complied with the JCPOA (a fact certified by the IAEA), and a violation by the U.S. would be a repudiation of the sanctity of negotiated outcomes. He also warned that if it violated the JCPOA, the U.S. would "regret" it.

The JCPOA is not a bilateral deal between Iran and the U.S.; other parties are China, France, Germany, Russia, the U.K., and the EU. Further, the JCPOA was unanimously supported by the United Nations Security Council (Resolution 2231) enabling Security Council sanctions to be lifted. The problem is that the U.S. has imposed multiple and often overlapping sanctions on Iran pertaining not only to nuclear activities but also to missile testing, human rights, and terrorism. To give effect to Resolution 2231, it was obliged to lift secondary nuclear sanctions so that other countries could resume commercial activities with Iran. The threat of the U.S. snapback means that third country companies may now attract U.S. sanctions. This uncertainty has been adversely impacting the sanctions relief since Mr. Trump's election.

Old friends: on India-Iran bilateral ties

The unrest that erupted in December in Mashhad and that spread to many cities in Iran claiming more than 20 lives was a reaction to rising prices amidst stories of growing corruption. Part of the reason for the economic grievances is the slower than promised sanctions relief, which would imply that Mr. Rouhani is in no position to offer any further concessions. Russia, China, and the European countries have indicated their full support for the JCPOA. However, in the absence of economic countermeasures, which is a lever that only the EU and China have, Mr. Trump is unlikely to be deterred.

Backing Mr. Trump in his anti-Iran sentiment are his allies, Israeli Prime Minister Benjamin Netanyahu and Saudi Crown Prince Mohammed bin Salman. Both blame Iran for aggressive behaviour — the former with regard to the growing influence of Iran and Hezbollah in Syria and the latter for the prolonged war in Yemen which was initiated as a quick operation in 2015 by the Crown Prince to restore President A.M. Hadi. While many European countries may also like to constrain Iran's missile and regional activities, the fact is that the JCPOA is exclusively about restraints on Iran's nuclear activities. According to them, only successful implementation of the JCPOA over a period of time can create the political space for additional negotiations; destroying the JCPOA is hardly the way to build upon it.

Meanwhile, Iran has also increased its role in Iraq, and activated links with the Taliban in Afghanistan, adding to the U.S.'s growing impatience and unhappiness. With these developments, it is hardly surprising that Mr. Modi's characteristic 'diplohugs' were missing and the outcome has been modest, even compared to last year. India conveyed its support for the full and effective implementation of the JCPOA, the need for strengthening consultations on Afghanistan, and enhancing regional connectivity by building on the Chabahar. Nine MoUs were signed relating to avoidance of double taxation, visa simplification, cooperation in diverse fields including agriculture, traditional systems of medicine, health and medicine, postal cooperation, trade remedial measures, and a lease contract for an interim period of 18 months for Phase 1 of Chabahar. The last is a move forward after the inauguration of the first phase of the Chabahar port in December by Mr. Rouhani. Earlier in October, Iran had allowed a wheat shipment of 15,000 tonnes for Afghanistan through Chahbahar.

India, Iran ink nine pacts after 'substantive' talks between Modi and Rouhani

However, there has been little forward movement on the big projects that were highlighted when Mr. Modi visited Tehran last year. The negotiations on the Farzad-B gas field remain stuck, with both sides blaming the other for shifting the goalposts. Understanding on it was reached during the sanction period but remained on paper because of Iranian unhappiness over India's stand in the IAEA. These were reopened after sanctions relief kicked in post-JCPOA when more countries showed interest.

There was talk about an aluminium smelter plant and a urea plant to build up Indian investments in the Chabahar free trade zone which in turn would catalyse port activity and justify railway connectivity out of Chabahar. The railway link has been mentioned in the context of connectivity to Afghanistan but the economic rationale for the \$2 billion investment has been missing. One positive thing is the exploration of a rupee-rial arrangement which could provide an alternative channel for economic and commercial transactions in case U.S. sanctions do kick in, making dollar denominated transactions impossible. However, the sanctity of this will need to be tested before private parties on both sides begin to use it. So far, trade between the two countries has hovered around \$10 billion, with two-thirds of it accounted for in terms of oil imports from Iran.

It is clear, therefore, that both countries approached the visit with modest expectations. The near-term developments in its neighbourhood are a priority for Tehran even as Mr. Modi tries to find a balance with his stated preference to develop closer ties with both the U.S. and Israel. The

uncertainties surrounding the JCPOA provide the justification for adopting a 'wait and watch' approach.

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