

IRAN-US TENSIONS AND THE INDIAN DILEMMA

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Relations between the United States and Iran have been more than tense for a number of years. Both sides have used outright methods of warfare and assassinations, along with several attempts at punitive economic and political sanctions. Despite everything, the Iran nuclear deal is hanging by a thread, the question being, what implications could this have for India?

India would like to expand its economic ties with Iran but tensions between Tehran and Washington are hampering New Delhi's efforts. The European Union has also tried to salvage its relationship with Iran by means of a special trade mechanism but the strategy has proved to be less than effective.

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India of course has significant interests in the Persian Gulf region, both economically and politically. Iran emerged as the top buyer of Indian tea in 2019. As per the latest figures, the Islamic Republic imported 53.5 million kilograms of tea from India last year, a rise of 74% from 2018.

The tea deals were made possible by an Indian rupee-based payment system set up by both countries in order to circumvent economic sanctions imposed by the US. "This boost really has come because of the rupee-rial trade arrangement that we have had with Iran," Azam Monem, a director at McLeod Russel India Ltd., told Bloomberg. The company is among India's largest tea exporters. "India's diplomacy should allow us to remain a partner to Iran where we supply humanitarian aid, tea and rice," Monem said.

Despite this rise in tea exports, an expansion of India-Iran commercial ties has been impeded by tensions in the Gulf region.

In early January, days after the US killed the head of the Iranian Revolutionary Guard Corps' Quds Force, Qassem Soleimani, Indian Foreign Minister Subrahmanyam Jaishankar made two urgent phone calls: one to US Secretary of State Mike Pompeo and the other to Iranian Foreign Minister Mohammad Javad Zarif. During these conversations, the Indian foreign minister urged both sides to keep tensions as low as possible.

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The Iranian port of Chabahar offers an excellent example regarding what might be at stake for India in the face of rising tensions between Iran and the US. To expand the port, Iran had joined forces with India and Afghanistan.

Chabahar's strategic location on the Gulf of Oman means that to reach it ships do not have to pass through the Strait of Hormuz which has become a flashpoint in the rising geopolitical tensions in the region over the past few months. The US, for its part, appears not to be bothered unduly by the Chabahar port. On the contrary, American officials view it as an opportunity to promote Afghanistan's economy, which is why they did not include it in their sanctions list.

Nevertheless, Indian investors and firms became cautious in the face of US sanctions and held

back from investing in Chabahar. This reluctance, in turn, prompted the Indian government to slash the [budget](#) allocated for the port by around two-thirds. After repeated assurances from the US that the port would not be included in the sanctions list, Indian businesses are now beginning to consider investing again. However, these investments are not aimed solely at Iran. In line with India's "neighborhood first" policy, the port is considered to have the potential to become an important gateway to Afghanistan and Central Asia, and ultimately even to Europe.

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The conflict between Iran and the US could have other far-reaching consequences. The Strait of Hormuz, for instance, is particularly important for the global supply of crude oil.

A quarter of the world's oil and a third of its natural gas are transported via this waterway. India sources 65 per cent of its oil imports through this shipping route. If this traffic were to be interrupted or even impaired due to military tensions, it would have a severe impact on the global price of oil. This became apparent shortly after the killing of Soleimani, when the oil price rose briefly to over \$70 (€64.2) per barrel.

A sharp spike in the price of oil would have dramatic consequences for India. Expert opinion has it that for India, a jump of just \$10 per barrel would push up inflation by 0.4 per cent. The poorer sections of Indian society would be the first to feel the effect. Also the Indian government's efforts to boost domestic consumption would be derailed by a rapid price rise.

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A conflict in the Gulf would also possibly have an impact on the approximately eight million Indians who reside and work in the region. If the situation forces them to quit their jobs and head home to India, the country would lose around \$40 billion they transfer home every year.

In the narrow and immediate perspective, India's relationship with the Saudi peninsula is more important than its relationship with Tehran. The UAE is India's third largest trade partner and also a major investor. Modi has targeted the Saudi and UAE sovereign wealth funds for promoting infrastructure construction in India. They see India's growing economy as a major destination for investment. And it appears that India has dealt itself out of the game by tamely skewing its Middle East policy in favour of the informal US-Saudi-Israel coalition.

Iran, on the other hand, being one of the three pillars of India's regional policy in West Asia, was given short shrift as New Delhi cravenly went along with Trump's 'maximum pressure' policy on Iran. Firstly, given the draconian nature of US sanctions, India would have had to be very courageous indeed in challenging the US, a possibility which was and remains fairly unlikely. Secondly, Prime Minister Modi, who had made successful forays to the UAE and Saudi Arabia, probably calculated that getting investments from these oil-rich kingdoms was equivalent to a bird in hand over the bird in the bush, or whatever possibilities and potentialities Iran might have to offer. As such, Modi loosened India's traditional and successful policy of maintaining a balanced relationship with Iran, Saudi Arabia and Israel.

Needless to say, Iran does not have that kind of spare wealth, nor is it a destination for the Indian diaspora. For India, its value lies in its vast oil and gas resources as well as in its geopolitical location and its market potential. Iran provides the route through which India, blockaded by Pakistan, can fulfill its Eurasian ambitions. That is why the upcoming visit of US President Donald Trump may be significant in defining the US-Iran relationship. Otherwise the dilemma can be expected to continue.

The story comes in special arrangement with DW. Debarati Guha is Head of Asia at Deutsche Welle (DW).

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