

Between the Elephant and the Dragon: Why it makes sense for India and China to cooperate on Iran's Chabahar project

After U.S. President Donald Trump decided to withdraw from the Iran nuclear deal, Iranian President Hassan Rouhani has indicated that his government remains committed to that pact and that he would be negotiating with the deal's remaining signatories — the European countries, Russia and China — to salvage the deal if possible. For Tehran, a lot is riding on how these powers engage in the coming months. India too has a lot at stake in this regard. Iran's attempt to woo Chinese investment in Chabahar, often projected as India's pet project (and a response to Gwadar in Pakistan), has raised eyebrows in New Delhi. Inviting Chinese investment is perceived as an attempt to dilute Indian influence.

The view from Tehran

The development of the Chabahar port, however, needs to be viewed as Iran's call for "engagement". The participation of Pakistan's Minister of Shipping at the inauguration ceremony made it clear that for Iran Chabahar means business. Post-sanctions, the development of the Chabahar port reflects Iranian quest for multilateralism, and China by default is an important player in the Iranian scheme of things. Given the overt hostility of the Trump administration towards Iran, it is imperative for Tehran to maintain cordial relationship with a rising power like China.

China is one of the few countries which never severed its ties with Iran. In fact, it had played a crucial role in bringing Iran to the diplomatic table to negotiate the P5+1 nuclear deal. A recent World Bank report estimates substantial acceleration in Iran's GDP growth rate (6.4%) in the year 2016 due to lifting of sanctions. This rebound is poised, if all goes well after the U.S. action, to get further impetus from Iran's participation in China's connectivity projects. China was also one of the countries that maintained steady trade relations with Iran even during the sanctions era. In fact, trade figures rose from \$4 billion in 2003 to \$53 billion in 2013. A large chunk of China-Iran trade is petroleum-based products. China is the largest importer of Iranian oil.

As of August, 2017 crude and condensate export from Iran to China was approximately 733,000 bpd (barrels per day); a rise of 11% compared to previous year. Besides, China's iron-ore buyers see in Iran an alternative to Australia and Brazil. Over the years, China has emerged as Iran's leading trade partner.

Post-sanctions, Chinese President, Xi Jinping was the first head of state to visit Iran, in January 2016. On the sidelines of his visit, both countries decided to increase their bilateral trade to \$600 billion in the coming decade. Iran, with its massive infrastructural needs, sees China as its most valued partner and Beijing has been investing in Iran in crucial sectors like railways. China International Trust and Investment Corporation (CITIC), a state owned investment wing has extended \$10 billion credit line to Tehran. Besides, China Development Bank has also signed a memorandum of understanding with the Iranian government worth around \$15 billion.

Chinese investments in Iran are part and parcel of its ambitious \$1 trillion Belt and Road Initiative (BRI). Apart from their economic rationale, these investments are also a means to generate political confidence/acceptability for a China-centric world order. Iran perceives the BRI as a project that would make it an indispensable transit hub for countries like China, India and Russia and an effective antidote to the U.S. sanctions. Iran's premium geographical location (as a bridge between Persian Gulf and Central Asia) along with a relatively stable political architecture makes it

a central player for China's BRI. This will give China de-facto control over two of the three major routes to world markets.

In addition to their economic partnership, China and Iran share substantial defence cooperation with each other. After the 1979 revolution, Tehran has been dependent on Beijing for meeting its defence requirements. China has supplied Iran with surface-to-air missiles and has also trained Iranian nuclear scientists. The November 2016 agreement signed between defence ministers of both countries entails regular military-to-military exercises. In 2014, both countries held joint naval drill in the Gulf. There have been intermittent talks between China and Iran for the sale of J-10 multirole combat aircraft to Tehran.

China, being permanent member of the Security Council with veto power, could be of great strategic help for Iran when it comes to vetoing any proposal against Iran in the United Nations. A parallel, China-dominated global order suits Iran more than the U.S.-centric world order.

India's policy options

This strong relationship between Tehran and Beijing makes it pertinent for New Delhi to navigate its interests in the region accordingly. To assume that Iran would help India counter Chinese influence in the region might be wishful thinking. India needs to resist the temptation of falling prey to "excessive securitisation" in the case of Chabahar agreement in particular and India-Iran relations in general. For India, to be an influential player in the region, economics and politics should complement and not substitute each other. India will have to capitalise upon the existing synergies. It is imperative to compliment geopolitical premises with robust commercial exchanges. In collaboration with countries like Japan, India should offer favourable terms of trade in the region *vis-à-vis* China. To consolidate its strategic depth in the region, India should focus on initiatives like frequent joint naval exercises in the Persian Gulf. Iran, on the other hand, would do well by maintaining a fine balance between the elephant and the dragon. Experiences of countries like Sri Lanka should encourage prudent thinking on the part of Iranian policy-makers.

New Delhi will have to adopt a nuanced approach towards Chinese investment in Iran, especially now that Tehran's reliance upon Beijing is only likely to grow after Mr. Trump's exit from the nuclear pact. Some form of Chinese participation in the Chabahar project would be helpful for the future of the project, especially if the terms and conditions are clearly specified. India and China are exploring joint economic projects in Afghanistan; they can surely also extend this engagement to the Chabahar.

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