



Not-So-Warm India-Iran Relations

Economic and Geostrategic Implications for India

Shafat Yousuf



India-Middle East Relations Opportunities and Challenges

With the United States shifting its security focus from the Middle East to the Asia-Pacific, other major powers are seen as potential players that might fill the void in Middle East security. The fact that India is one such player is further manifested in the recently announced India-Middle East-Europe Economic Corridor.

This series of *Insights* seeks to unravel the evolutionary paths that the growing multifaceted connections between India and the Middle East might take and the challenges arising. India's relationship with Israel, especially under the purview of the I2U2 partnership, which also includes the United Arab Emirates and the United States, has in particular generated much curiosity among observers. India's longstanding economic ties with the GCC countries, along with its ties with Iraq and Iran, have added to the strategic significance of the Middle East for India and given it strong reasons for a greater role in the Middle East.

Cover image: Iran's Foreign Minister Mohammad Javad Zarif (L) with his Indian counterpart, S. Jaishankar, during bilateral talks in Tehran, 22 December 2019. AFP/Atta Kenare.

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Economic and Geostrategic Implications for India

Shafat Yousuf*

India and Iran share cultural, religious and economic ties dating back to ancient times. India has vital economic and strategic interests in Iran, ranging from energy security and counterterrorism to accessing Central Asia and Eurasia. But India's relations with Iran are increasingly hampered by its growing strategic alignment with the United States. In complying with US sanctions and limiting its relationship with Iran, India has not only lost a reliable and cheap energy source but has also compromised its strategic autonomy and national interests. Its receding relationship with Iran opens up strategic space for China to increase its influence in Iran and the region, which defeats one of India's key motivations in pursuing closer ties with the United States.

India and Iran have historically had a deep cultural connection that has resulted in friendly perceptions of one another. In mediaeval times, the Persian language was the dominant language of India's princely courts and of scholarly works in India. The language provided a translation medium for the literary treasures in the Indic and Persian

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¹ For a comprehensive overview of India-Iran relations, see Sujata Ashwarya, *India-Iran Relations: Progress, Problems and Prospects* (New York: Routledge, 2017).

civilisational traditions. Persian poetry has had a deep influence on Indian literary traditions while Iranian arts and architecture have influenced India's artistic growth and explorations.² In the recent past, apart from trade and student exchanges (for both seminary and university studies), Indian cinema has gained wide viewership in Iranian society. Indian films and stars are well recognised in Iran, and they are often a common conversational starter between people from India and Iran.³

"A strategic gap remains between India and Iran despite the signing of partnership declarations in 2001 and 2003 and the issuing of encouraging public statements."

However, the deep historical and cultural roots between the two countries have not corresponded with strong state-to-state relations in recent times. A strategic gap remains between the two nations despite the signing of partnership declarations in 2001 and 2003 and the issuing of encouraging public statements. India's growing strategic alignment with the United States in recent years – intended largely to counter China's growing power in Asia – has affected its strategic autonomy and regional interests. Under US influence, India in 2019 halted oil imports from Iran, depriving itself of one of its biggest and cheapest sources of energy. Also, India's involvement in some major projects in Iran, such as Chabahar port, the Chabahar–Zahedan rail link and the Farzad B gas project, saw long delays, due in part to India's reluctance to move faster

² For a study of meeting and diverging points in the Indian and Iranian art traditions, see Nasir Raza Khan (ed.), *Art and Architectural Traditions of India and Iran: Commonality and Diversity* (New York: Routledge, 2022).

³ The author was witness to many such conversations during his stay in Iran in 2019–20.

⁴ On the US influence on the ties, see Uma Purushothaman, "American Shadow over India-Iran Relations," *Strategic Analysis* 36, no. 6 (2012): 899–910.

⁵ Nayanima Basu and Mahua Venkatesh, "India Gives In to US Pressure, Fully Stops Import of Iran Oil", *The Print*, 9 May 2019, https://bit.ly/44O5L8N.

in the face of US sanctions on Iran.⁶ Although work on Chabahar port – dubbed a strategic game-changer – eventually began in 2016, Tehran dropped India from both the rail and gas projects, citing delays on New Delhi's part. These developments have created a strategic dilemma for India. Its fraying relationship with Iran due to US influence has opened up strategic space for China to increase its involvement in Iran and push its foreign policy agenda in India's extended neighbourhood.⁷ Consequently, India's ability to secure its own strategic interests in Iran and the wider Middle East and Central Asian regions has been weakened.

Loss of a Cheap Source of Energy

India is one of the fastest-growing economies in the world, with a huge demand for energy. According to official Indian statistics, India's oil imports have been well in excess of 80% of its total oil consumption in recent years, soaring to 87.3% in 2022–23 (see Table 1). Rising oil prices since 2020 have put a significant strain on India's economy. India's oil import bill in the 2021–22 fiscal year was US\$119.2 billion, almost double the amount spent in the previous fiscal year, and rose to US\$158.3 billion in 2022–23.8 In 2022, India's external affairs minister acknowledged the toll taken by rising prices, saying they were breaking India's back.9 As the Indian economy grows, its energy needs are likely to increase in the coming years. According to the International Energy Agency (IEA), India's fossil fuel import bill is estimated to triple in the

⁶ MK Bhadrakumar, "How India Lost Its Way in the Persian Gulf", *Asia Times*, 21 May 2021, https://bit.lv/3pWunNI.

⁷ On the China-Iran partnership, see Jonathan Fulton, "The China-Iran Comprehensive Strategic Partnership: A Tale of two Regional Security Complexes", *Asian Affairs* 53, no. 1 (2022): 145–163.

⁸ Sukalp Sharma, "India's Reliance on Imported Crude Oil at Record High of 87.3% in FY23", *Indian Express*, 25 April 2023, citing Indian Ministry of Petroleum and Natural Gas, https://indianexpress.com/article/business/commodities/india-reliance-on-imported-crude-oil-at-record-high-of-87-3-in-fy23-8573996/

⁹ "Spike in Oil Price Is Breaking Our Back, Says Jaishankar after Talks with US", *Mint*, 28 September 2022, https://bit.ly/3D89kLn.

next two decades.¹⁰ By 2040, India's net dependence on imported oil will be more than 90%. In one of four IEA scenarios for India – India's Stated Policies Scenario (STEPS) – natural gas becomes the fastest-growing fossil fuel and its consumption share doubles to 20% by 2024.

Such a scenario calls for not just securing long-term partnerships with fuel-exporting nations but also diversifying the energy portfolio. Iran serves both purposes for India in this scenario. However, after 2018, when the Trump administration withdrew from the nuclear agreement with Tehran – known as the Joint Comprehensive Plan of Action (JCPOA) – and imposed fresh sanctions on Iran, New Delhi was no longer able to secure an extension of the earlier waiver from Washington for complying with the sanctions.

Table 1. Share of Imports in India's Crude Consumption

Financial Year	Import Shares	Domestic oil shares
2018–2019	83.8	16.2
2019–2022	85	15
2020–2021	84.4	15.6
2021–2022	85.5	14.5
2022–2023	87.3	12.7

Source: Sukalp Sharma, "India's Reliance on Imported Crude Oil at Record High of 87.3% in FY23", *Indian Express*, 25 April 2023, citing Indian Ministry of Petroleum and Natural Gas, https://indianexpress.com/article/business/commodities/india-reliance-on-imported-crude-oil-at-record-high-of-87-3-in-fy23-8573996/

India's decision to stop oil imports from Iran in 2019 to comply with the US sanctions has resulted in the loss of some significant trade

¹⁰ International Energy Agency, *India Energy Outlook 2021*, https://iea.blob.core.windows.net/assets/1de6d91e-e23f-4e02-b1fb-51fdd6283b22/India Energy Outlook 2021.pdf.

benefits and added to the burden of high oil prices. Iran, with the world's second-largest natural gas and third-largest oil reserves, 11 was a reliable and cheap source of energy for India. 12 Before 2019, India was able to fulfil nearly 10% of its oil requirements from Iranian supplies. Tehran would offer discounts on oil prices and insurance costs. India also benefitted from flexible and deferred payments, apart from the two-month trade credit offered by Iran. 13 In 2018, before India began

"The distance between India's Kandla port and Chabahar port [in Iran] is less than the distance between New Delhi and Mumbai, India's financial capital."

reducing Iranian oil imports, Tehran had increased its freight discounts to Indian oil-importing firms. ¹⁴ It also offered free shipping along with an extended credit period. ¹⁵ For India, these discounts significantly contributed to overall import cost reduction. In addition, overall trade with Iran enjoyed lower shipping time and expenses on account of the shorter voyage times between India and Iran. The distance between India's Kandla port and Chabahar port is less than the distance between New Delhi and Mumbai, India's financial capital.

Importing Iranian oil had opened other benefits for India. The Indian rupee had earlier become a trading currency for oil payments due

¹¹ US Energy Information Administration, "Country Analysis Executive Summary: Iran", 17 November 2022.

https://www.eia.gov/international/content/analysis/countries_long/Iran/pdf/iran_exe.pdf.

¹² Saiyed Zegham Murtaza, "Why India Is Looking Forward to Resume Importing Oil from Iran", *National Herald*, 22 March 2022, https://bit.ly/3XNs78c.

¹³ Arun Singh, "The Impact of Iran Oil Sanctions on India", Forbes India, 24 June 2019, https://bit.ly/3NTsb1G.

¹⁴ Nidhi Verma, "Indian State Firms Plan to Nearly Double Iranian Oil Imports: Sources", Reuters, 6 April 2018, https://bit.lv/3K2zanF.

¹⁵ Nidhi Verma, "Exclusive: Indian Refiners Pay for Iranian Oil in Rupees – UCO Bank Executive", Reuters, 8 January 2019, https://www.reuters.com/article/us-india-iran-payment-exclusive-idUSKCN1P21XF/

to US sanctions on Iran. It saved India foreign reserves and helped offset the depreciation of the rupee. ¹⁶ The barter trade between the two nations allowed India to buy oil against its goods and services, thus saving additional foreign reserves and further reducing overall import costs. Iranian light crude is compatible with Indian oil refineries. Changing the configuration to process other grades of oil would have been an expensive affair for these refineries. ¹⁷ All in all, Iran had turned out to be a trusted oil supplier for India and on occasion had continued supplies despite delays in payments. ¹⁸

"In 2022–23, when Russia became one of the biggest oil suppliers to India, the Indian government justified it in the name of sovereign decision-making and India's national interest."

Increased dependence on other countries for oil due to the loss of Iranian oil makes India more vulnerable to oil price shocks and supply disruptions. Despite the United States' attempts to maintain oil price stability, India has had to face price instability, at least in the short term. ¹⁹ To lower the massive cost of importing energy, India felt compelled to buy discounted oil from Russia, defying pressures from the West, especially the United States. In 2022–23, when Russia became one of the biggest oil suppliers to India, the Indian government justified it in the

¹⁶ "India to Buy Iranian Oil in Rupees: Here's how the Agreement will Work," CNBC TV18, 7 December 2018, https://www.cnbctv18.com/energy/india-to-buy-iranian-oil-in-rupees-heres-how-the-agreement-works-1623141.htm.

¹⁷ Singh, "The impact of Iran Oil Sanctions on India".

¹⁸ Sanjiv Shankaran, "Iran Oil Supply to India Continues, Despite No Payment", *Business Today*, 24 July 2011, https://www.businesstoday.in/magazine/features/story/india-has-not-paid-to-iran-for-oil-supply-22450-2011-07-19.

¹⁹ "US Deadline Ends, India Stops Purchasing Iranian Oil", *The Economic Times*, 24 May 2019, https://economictimes.indiatimes.com/industry/energy/oil-gas/us-deadline-ends-india-stops-purchasing-iranian-oil/articleshow/69475495.cms.

name of sovereign decision-making and India's national interest.²⁰ However, New Delhi may not be able to continue taking such a stand in defiance of pressures from Washington nor can it resume the oil trade with Tehran.

US sanctions on Iran hindered not just India's energy trade with Iran but also the negotiations for India's involvement in the Pars gas project in southern Iran. Despite an initial US\$3 billion agreement for the project, New Delhi was perceived in Tehran to have lacked goodwill after it stopped its activities in developing Farzad B block of the Pars gas field in 2012, citing the difficulties emerging from the US sanctions. Subsequently, following the lifting of US sanctions under the Obama administration, India put up a financial proposal for the project but it did not meet Iran's expectations and India was dropped from the project in 2019.²¹ This was a clear loss for India as the Indian firm ONGC Videsh Ltd had been part of the initial exploration in the Farzad B block in 2008.

"US sanctions on Iran hindered not just India's energy trade with Iran but also the negotiations for India's involvement in the Pars gas project in southern Iran."

The Pars gas project was the latest addition among joint oil and gas project non-starters between India and Iran. Previously, the Iran-Pakistan-India Gas Pipeline and the Middle East to India Deepwater Pipeline (MEIDP) between India and Iran failed to take off.²² Iran and

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²⁰ "India Strongly Defends Import of Crude Oil from Russia amid Ukraine War," NDTV, 05 December 2022, https://www.ndtv.com/india-news/india-strongly-defends-import-of-crude-oil-from-russia-amid-ukraine-war-3580532.

²¹ "Farzad-B Gas Field Development Deal To Be Signed Soon: NIOC Head", *Tehran Times*, 12 July 2020, https://tinyurl.com/39crerpf. Also, see Kallol Bhattacherjee, "Iran to Develop Farzad B Gas Field Domestically, Dumps India", *The Hindu*, 17 May 2021, https://tinyurl.com/4vb32yfy.

²² Manish Gupta, "\$5 billion Undersea UAE-Gujarat Gas Pipeline Proposed", *Financial Express*, 15 May 2023, https://www.financialexpress.com/industry/5-billion-undersea-uae-gujarat-gas-pipeline-proposed/3089046/.

Oman are working on developing gas pipelines and there are proposals to connect these with India, which could boost New Delhi's energy security.²³ While the Biden administration had earlier said it would return to the JCPOA nuclear deal if Iran showed compliance, the negotiations so far have not yielded any compromise. In these circumstances, US influence on India's Iran policy does not make it likely that such an ambitious project can be realised.

Geo-economic and Strategic Losses

Iran's location makes it a geo-economically significant hub as India expands its connectivity with the Central Asia and Eurasia regions. Chabahar port on the southeastern coast of Iran is a crucial confluence of sea and land routes that would allow India to enhance trade with these regions, saving both time and costs. Lying on India's west, the port bypasses the country's hostile neighbour, Pakistan, which has been a major hurdle for India in establishing a land route with its extended neighbourhood. Chabahar is a vital point to realise geo-economic initiatives such as the International North-South Transport Corridor (INSTC) and the Ashgabat Agreement for a multimodal transport system to facilitate the transportation of goods from the Eurasia region onwards to Central Asia and the Indo-Pacific regions via Iran. Besides these initiatives, the potential free trade agreement between India and Russia makes Iran a natural transit point.²⁴ Iran also is central to India's plan of importing gas from the Central Asian region, given its lack of other options.25

Considering Chabahar port's strategic location, India signed an agreement with Iran in 2003 to jointly develop the port. The agreement came about as Tehran was looking for investments to develop its

²³ Rajeev Agarwal, "India-Iran Ties Are Ripe for a Reset", *The Diplomat*, 11 June 2022, https://thediplomat.com/2022/06/india-iran-ties-are-ripe-for-a-reset/.

²⁴ Nidhi Verma and Krishn Kaushik, "India, Russia in Talks on Free Trade Deal to Further Deepen Bilateral Commercial Ties", *The Print*, 17 April 2023, https://tinyurl.com/m5kjxj7k.

²⁵ "India and Iran Sign 'Historic' Chabahar Port Deal", BBC News, 23 May 2016, https://tinyurl.com/bdedny8k.

infrastructure and New Delhi wanted to secure its interests as an emerging power. The immediate push for India's involvement in Chabahar was China's efforts to develop Pakistan's Gwadar port on the Arabian Sea in 2002. The port is part of China's so-called string of pearls strategy of developing military and commercial facilities from mainland China to Africa.

"India's attempt to restart the Chabahar project in 2016 constitutes a response to the perceived encirclement by China through its Belt and Road Initiative."

However, it was only in 2016 that India sought to revive its involvement in the Chabahar project. The long delay was due to US sanctions. Meanwhile, Beijing had already started work on Gwadar and also launched its Belt and Road Initiative (BRI) in 2013, which heightened New Delhi's fear of Chinese economic and strategic encirclement. Moreover, the BRI's land project of building Karakoram Highway to connect China with Pakistan goes through Pakistan-controlled Gilgit-Baltistan. This constitutes a challenge to India's sovereignty as Gilgit-Balistan was previously part of the pre-1947 princely state of Jammu and Kashmir, which is claimed in its entirety by India. India's attempt to restart the Chabahar project in 2016 thus constitutes a response to the perceived encirclement by China through its BRI.²⁶

Meanwhile, as India began strengthening relations not just with the United States but also Israel – Iran's arch enemy in the region – it was hard put to balance those relationships with its ties with Iran. India delayed its involvement in two other Indo-Iran joint projects: the aforementioned Farzad gas field development and the Chabahar–Zahedan railway link. Consequently, Iran dropped India from the railway

²⁶ See Kashif Hasan Khan and Ali Omidi, "China-India Counterbalancing Measures through International Corridors and Ports: The Focus on Chabahar and Gwadar Ports", *Journal of Liberty and International Affairs* 9 (2): 144–63.

project in 2020, four years after signing the agreement for it,²⁷ citing long delays from the Indian side in funding and starting the work. The rail link connects Chabahar port to the Iranian city of Zahedan, near Afghanistan, which would have given a major boost to India's efforts to access the Central Asian and Eurasia regions. Loss of both the projects and the slow start on Chabahar port reflect poorly on India's pursuit of its strategic interests in Iran and the wider region.

"For India, all this has increasingly become a zero-sum game, where New Delhi's loss of influence in the Middle East and Central Asia turns out to be Beijing's gain."

For Iran, reliance on India became questionable despite its efforts to maintain a public image of healthy ties. Consequently, Iran deepened its engagement with China, a trusted partner in difficult times, both in trade and international diplomacy. For China, the lack of robust India-Iran relations provides it a significant opportunity to fill the vacuum and expand its influence in Iran at India's cost. China has not only deepened strategic relations with Iran using investment as a tool but has also gained economically from cheap Iranian oil. China continued importing oil from Iran despite US sanctions, taking advantage of the low prices and gaining leverage over Iran.²⁸ It used that influence to bring about a rapprochement in 2023 between Iran and its erstwhile enemy, Saudi Arabia. For India, all this has increasingly become a zero-sum game, where New Delhi's loss of influence in the Middle East and Central Asia turns out to be Beijing's gain. Given its desperate need for foreign investment and India already out of two major projects, Iran signed a 25-year strategic partnership agreement with China in 2021. The agreement involves Chinese investments worth US\$400 billion in various

²⁷ Suhasini Haidar, "Iran Drops India from Chabahar Rail Project, Cites Funding Delay", The Hindu, 14 July 2020, https://tinyurl.com/3x72kw6d.

²⁸ Rachel Adams-Heard and Nick Wadhams, "China Rejects US Request to Cut Iran Oil Imports", *Bloomberg*, 3 August 2018, https://bit.ly/3K11Nle.

sectors, including energy, infrastructure, trade and security.²⁹ This strengthening of the relationship between Iran and China amid India's hesitation in speeding up the Chabahar development project could well open up the potential for Chinese involvement in the project.³⁰

"India's ability to pursue its geostrategic interests in the Middle East and Central Asian regions also hinges in part on Iran."

Apart from the geo-economic significance of Iran for India, India's ability to pursue its geostrategic interests in the Middle East and Central Asian regions also hinges in part on Iran, and Afghanistan is a significant example of this. India and Iran have common interests in Afghanistan, ranging from the political stability of the country and countering extremism emanating from Afghanistan (as well as from Pakistan). India invested significantly in Afghanistan's reconstruction and development after the US war removed the Taliban from power in late 2001. However, with the withdrawal of US and NATO forces from Afghanistan and the Taliban's return to power in 2021, India needs Iran more than ever before to secure its security interests in Afghanistan. Pakistan had considerable sway over the Afghan Taliban before the US invasion. With the Taliban again at the helm of affairs in Kabul, Pakistan seems to be in a stronger position to expand its influence in the country and pursue its geostrategic agenda against India.³¹ Tehran provides New Delhi a safe conduit to Afghanistan and the scope to work together for the stability of the war-torn nation and prevent it from becoming a haven

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²⁹ Farnaz Fassihi and Steven Lee Myers, "China, with \$400 Billion Iran Deal, Could Deepen Influence in Mideast", *The New York Times*, 27 March 2021,

https://www.nytimes.com/2021/03/27/world/middleeast/china-iran-deal.html.

³⁰ Silvia Boltuc, "Chinese Interests in Iranian Ports", *Special Eurasia*, 27 January 2022, https://www.specialeurasia.com/2022/01/27/china-iran-port/.

³¹ See Zahid Ullah, "Contextualising the Taliban Redux (2021): Is the Taliban Takeover of Afghanistan a Pyrrhic Victory for Pakistan?" *Small Wars & Insurgencies* 33, no. 7 (2022): 1177–1202.

for extremism against India. India sent Covid-19 vaccines to Afghanistan via Iran in 2022 and food aid through Iranian territory in 2023.³²

Conclusion

With the rise of China and the West-dominated world order increasingly challenged by the Sino-Russian alliance, India faces a major challenge in balancing its foreign relations and securing its strategic interests. This is no truer than in India's extended neighbourhood, where it finds a vital need to safeguard its legitimate interests as a rising power. India's aspirations are increasingly challenged by the close ties between its Asian rivals, China and Pakistan, which have developed a strategic partnership. In such a scenario, India has no other more friendly power in its neighbourhood than Iran, with which it has had deep historical relations and overlapping strategic interests. But, with the United States becoming a significant influence on Indo-Iran relations in recent years, India seems to have slowed down its efforts to develop a robust partnership with Iran. This trend has come with strategic implications for India.

India complied with the US sanctions on Iran and halted oil imports from Iran in 2019, losing a cheap supplier as its energy needs grow. New Delhi also lost strategic projects in Iran – the Chabahar—Zahedan railway link and Farzad gas field development – owing to its policy of keeping a safe distance from Iran in view of the growing US-India strategic partnership.

India's policy of balancing China by aligning with the United States seems to have backfired in Iran as India's receding ties with Iran have opened up strategic space for China to increase its influence in Iran and the larger region. Lack of the kind of economic and military clout that China wields has caused India to lose out to the latter in various regional security and trade initiatives. By failing to enhance its relations with an emerging Iran, India risks losing out on potential economic benefits and a strategic partnership.

³² "India Cements Relations with Afghanistan by Routing Food Aid through Iran", *Business Standard*, 31 May 2023, https://bit.ly/3Of7oqH.

The changing geopolitical scenario, with a growing Iran-China-Russia partnership, calls for India to enhance its engagement with Iran. In fact, Iran is not only growing stronger militarily but is fast emerging from isolation in the rapidly changing geopolitical context and becoming a regional power in the Middle East and Central Asia. Bashar al-Assad – Iran's Syrian ally – is consolidating his country's victory in the civil war in Syria, and Iran-supported Houthis have been gaining a foothold in Yemeni affairs. Also, the Iran-GCC rivalry, an important impediment to India's efforts to foster closer ties with Iran, has become less intense, with the GCC nations, particularly Saudi Arabia, warming up to Iran.³³ Furthermore, Iran has gained full membership in the Shanghai Cooperation Organisation (SCO) and the BRICS bloc, reflecting Iran's growing importance as a regional power. With the US presence receding from the Middle East and China increasing its engagement of the region, Iran is indispensable to the attainment of India's regional aspirations as an emerging power. India would need to do more to engage with Iran to enhance and safeguard its strategic and economic interests. •

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³³ For India's challenges in the context of the Iran-GCC Rivalry, see Prasanta Kumar Pradhan, "GCC-Iran Rivalry and Strategic Challenges for India in the Gulf", *Indian Foreign Affairs Journal* 6, no.1 (2011): 45–57.





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