

## Why Iran is Important for the U.S.-India Relations

*With India being increasingly seen as a [natural](#) partner by the United States in persevering the liberal order, any offensive by the U.S., economic or otherwise, on India's strategic interests will not behave well for the desired partnership between the two countries. It is in this spirit that the two countries must foster a relationship. Implication of sanctions on Iran by the U.S. and their impact on India will therefore need to be carefully handled.*

*This is particularly important because India and Iran are not only extended neighbours occupying strategic geo-political locations with deep cultural and economic ties that go back to the five millennia but they can also be strategic partners in the pursuit of balancing the geo-political shifts.*

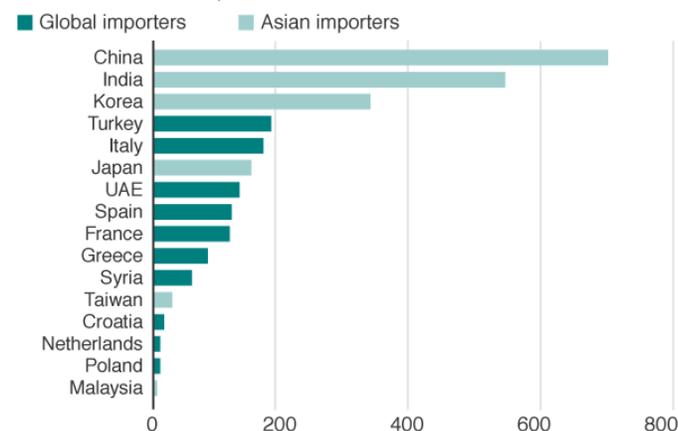
### Introduction

On May 8, 2018, President Donald Trump unilaterally announced economic and financial [sanctions](#) on Iran to deter the Iranian regime from developing nuclear weapons. The sanctions are being reinstated in the wake of U.S. withdrawal from July 2015 Joint Comprehensive Plan of Action (JCPOA), a multilateral agreement signed among United Nations Security Council's Permanent-5 i.e. China, France, Russia, United Kingdom, United States and Germany (and the European Union).

JCPOA stands for facilitating support, monitoring and deterrence towards non-proliferation of Iranian nuclear programme. The other member signatories term the withdrawal as unfortunate and are in view of keeping the agreement intact without the U.S.

### Iran's biggest customers

Average exports in thousands of barrels per day from November 2017 to April 2018



Source: Bloomberg

### Impact on India's Energy Security

The most impacted would be India's crude oil supplies. This is because Iran is India's third largest supplier of crude oil followed by Iraq and Saudi Arabia. For Iran, India is the second largest market of its oil. India's major state owned and private refineries prefer purchasing cheap oil from Iran to maintain sourcing and production competitiveness.

In other words, being a net oil importer, it makes economic sense for India to rely on competitive deals to meet the bulk of its oil needs. Iran's proximity to

India, therefore, serves India's economic interests.

However, in the wake of U.S. sanctions this could be severely disrupted. This may also affect trade in other non-oil items due to disruptions in shipping, logistics and insurance operations. Further, the U.S. threatens to penalize financial institutions integrated with the U.S. economy for facilitating trade with Iran, and even freezing assets of some of the corporations that indulge in business with Iran.

## Impact on India's Strategic Pursuits

The U.S. sanctions will also have an adverse impact on regional peace and prosperity that can be facilitated through greater connectivity. In that context, India-Iran infrastructure development and connectivity pursuits catering to Afghanistan, Central Asia and beyond deserve special attention.

For instance, an economically weak and isolated Iran may render Indian infrastructure investments such as in [Chabahar](#) port in Iran suboptimal. Worse, it will hurt the U.S. interests too as this port can be a reliable link to access Afghanistan – a country whose rebuilding is in economic and security interest of both India and the U.S.

Second at stake is International North South Transport Corridor (INSTC),<sup>1</sup> a greater connectivity initiative, established by India, Iran and Russia at turn of the century. It is one of the greatest connectivity alliances of the current times linking India, Iran, Central Asia, Russia and Europe, through modern infrastructure and transport connectivity initiatives.

Therefore, as a consequence of sanctions, the growth and development of the INSTC corridor can get adversely impacted.

Third, there is also an eminent sense in the U.S. - India collaboration on strengthening Indian Ocean Naval Symposium (IONS), a regional forum of Indian Ocean littoral states. Essentially, a security construct, the IONS comprises 36 nations including South Asian, West Asian, East African, South East Asian and Australia. Amongst the countries in IONS, it is worth noting that Iran is among them and hence a partaker in ensuring the stability of India Ocean and by implication of the Indo-Pacific<sup>2</sup>.

Fourth, it must be remembered that Iran has far more [durable](#) relations with China and Russia than it has with India. That said, it does not mean that potential for greater economic ties between India-Iran cannot be fostered. On the contrary such intentions have been spelt out by the leadership of both the countries in the past but remained short of fructification. With the U.S.'s economic and strategic interests now overlapping with India's more than ever

before, there is a greater sense in allowing India to reap maximum advantage through regional partnerships. Therefore, there is all the more reason for the U.S. to allow India to foster stronger relations with Iran than to let India's natural regional ally veer completely away from India.

Lastly, salience of Iran in India's recent and relatively quieter attempts to reach out to Europe should not be missed<sup>3</sup>. Iran could be an all-important passage to India's outreach to Europe at a time when Europe too seeks new partnerships and is currently mapping out an 'India Strategy'. This assumes special significance in the context of growing Chinese influence in Europe.

In other words, as the second-largest economic entity, Europe can be a natural partner in India's economic transformation and Iran's strategic location can be leveraged in that pursuit.

## Conclusion

From the arguments presented thus far it can be easily gauged that Iran's strategic location is critical to India's economic prosperity which in turn, will be in the best interest of the U.S. This is a reality that the U.S. needs to internalise. In other words, the US-India relations can thrive best when there is mutual respect for sovereignty and strategic autonomy.

Given the above, U.S. would do well by being consistent towards maintaining relations with India. Whereas on one hand, it is looking to develop strategic ties with India and accordingly willing to adjust its domestic legislations such as CAATSA<sup>4</sup>, its stand on Iran is not guided by the same yardstick. It will help to recall that the underlying premise for the waiver under [CAATSA](#) too was that a stronger India is in the best interest of the United States.

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*This Policy Note has been researched and prepared by Abhishek Kumar, Director and Prashant Sharma, Senior Programme Officer, CUTS International.*

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1 The INSTC later expanded to include eleven new members as Observers, namely, Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkey, Ukraine, Belarus, Oman, Syria and Bulgaria. Available at [https://idsa.in/issuebrief/InternationalNorthSouthTransportCorridor\\_msroy\\_180815](https://idsa.in/issuebrief/InternationalNorthSouthTransportCorridor_msroy_180815)

2 <https://thewire.in/diplomacy/india-us-dialogue>

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3 <https://timesofindia.indiatimes.com/world/us/trump-says-he-is-ready-to-talk-to-iran-without-pre-conditions/articleshow/65218181.cms>

<sup>4</sup> Countering America's Adversaries through Sanctions Act