



## Asia-Pacific Center for Security Studies



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### Asia's Bilateral Relations

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# India-Iran Relations: A Deepening Entente

D O N A L D L . B E R L I N

## Executive Summary

- Iran, with its Islamic government, seems a strange ally of India, a democracy until recently dominated by a Hindu nationalist party. But the two nations have overcome past antagonisms and developed close ties that will affect not just Southwest Asia but also the United States.
- Iran sees India as a strong partner that will help Tehran avoid strategic isolation. For India, the relationship is part of an effort to pursue Indian interests pragmatically with all significant states and especially with those nearby. This effort will continue notwithstanding the recent advent of a Congress Party-dominated government in India.
- Deepening ties are reflected in the recent growth of bilateral trade that will now increase further following an agreement that Tehran will supply India with 5 million tons of liquefied gas annually for twenty-five years. The two states also are cooperating on the North-South Transportation Corridor, a project to link Mumbai—via Bandar Abbas—with Europe. They also are discussing a possible gas pipeline from Iran via Pakistan to India.
- Security relations were advanced significantly after last year's state visit by Iranian President Khatami, when he was the guest of honor at India's National Day. The parties forged an accord that gives Iran access to Indian military technology. Reportedly, it also gives India access to Iranian military bases in the event of war with Pakistan. Other recent developments include the first Indo-Iranian combined naval exercise and an Indian effort to upgrade the Iranian port of Chahbahar, a move that could foreshadow its use by the Indian navy.
- The new Indo-Iranian entente could powerfully influence such important matters as the flow of energy resources, efforts to stem the proliferation of weapons of mass destruction, and political developments in Afghanistan, Central Asia, and the Persian Gulf. The consequences will not always suit U.S. interests.

## BACKGROUND

Ties between India and Iran date to the Persian Empire of Cyrus the Great. The nations have long influenced each other in the fields of culture, art, architecture, and language, especially during the 1526-1757 period, when the Mughals ruled India. India and Iran also shared a border until 1947.

Notwithstanding these connections, Iran's alignment with the West during much of the Cold War and India's nonalignment policy prevented the two countries from closely interacting. During India's wars with Pakistan, Iran helped the latter with military hardware. After Iran's Islamic revolution, New Delhi's dissatisfaction centered on Iranian support for Kashmiri aspirations and Tehran's efforts to spread its Islamic revolution.

This era, however, has been followed by a significant improvement in ties in more recent years. This process has been abetted by a deterioration in Pakistan-Iran relations following the Iranian Revolution and increased hostility by Tehran toward Sunni-dominated Pakistan. Incidents such as the May 2004 bomb attack on worshippers at a Shiite mosque in Karachi obviously still anger Tehran. Iran also was perturbed by Islamabad's role in creating the Taliban and in helping it to take control of Afghanistan. From Tehran's perspective, Pakistan's motives in creating the Taliban included a desire to eliminate Iranian influence from Afghanistan, prevent the expansion of Iran's presence in Central Asia, and block a southern export route through Iran for Central Asian energy.

Building in part on Iran's problems with Pakistan and on Islamabad's failure to play a proactive regional role, Indo-Iranian relations were first boosted by the visit to Iran of Indian Prime Minister Rao in 1993, the first Indian prime minister to visit since the Islamic Revolution in 1979. This was followed by a reciprocal visit by Iranian President Rafsanjani in 1995, and by a tripartite agreement among India, Iran and Russia to establish a North-South Transportation Corridor linking India through Iran to Russia and then on to Europe. However, the most important milestones for Indo-Iranian relations came when Indian Prime Minister Vajpayee visited Tehran in 2001, followed by the reciprocal visit of Iranian President Khatami to New Delhi in 2003 when he was the guest of honor at India's Republic Day celebrations, an honor reserved for the closest friends of India.

## MOTIVES

Both parties have strong motives for courting the other. Iran sees India as a strong partner that will help Tehran to avoid strategic isolation, particular at a moment when Tehran has been designated a member of the "Axis of Evil." Tehran also sees India as helping it to break out of the anti-Iran pincer allegedly created by the United States in the region, and as an ally against Arab nationalism and extremist Wahhabite Islam. Finally, the move toward India also reflects the broad Iranian foreign policy trend toward an emphasis on the "national interest" versus Islamic ideology, a shift that became more pronounced in the late 1990s.

For India, the establishment of a strong relationship with Iran is part of a wider effort to pursue Indian interests pragmatically and patiently with all significant states and especially with those in India's neighborhood. It has been part of a broad effort in recent years to transform Indian foreign policy, jettison New Delhi's traditional emphasis on idealism, and pursue concrete Indian interests with a sense of purpose. In September 2003, Indian Foreign Secretary Kanwal Sibal underscored the significance of the India-Iran connection

when he emphasized that “there should be no doubt of the strategic importance New Delhi attaches to the relationship.” In fact, as Pakistan and Iran have been edging toward a better relationship than they have enjoyed for some years, the consolidation of the new India-Iran relationship over the past two years is an impressive Indian diplomatic achievement.

New Delhi also regards the Iranian connection as serving a variety of tangible and specific Indian interests. Perhaps most important, the nexus with Iran is seen as helping India with its energy needs. As the fourth largest economy (in terms of Purchasing Power Parity) in the world, and one almost 70 percent dependent on foreign oil for its needs, India’s oil and energy needs are significant and growing. Moreover, Iran will remain India’s preferred choice for the transit for natural gas from Central Asia, until such time as the developments in Pakistan and Afghanistan stabilize.

A second factor for India, obviously, is the utility of the relationship in terms of India’s rivalry with Pakistan. In this respect, the Iran nexus is seen as facilitating Indian efforts to contain and encircle Islamabad, an opportunity seen as deriving in part from Pakistan’s weakened posture in Afghanistan. At the same time, the Indo-Iranian relationship sends a message to Washington that U.S. ties with Pakistan entail costs and one of them is a strengthened Indo-Iranian nexus.

A third consideration for India is the value of the Iran relationship in the context of India’s long-term program to deepen and widen its influence in the Indian Ocean region. In the expansive view of many Indians, this security perimeter should extend from the Strait of Hormuz to the Strait of Malacca and from the coast of Africa to the western shores of Australia. Iran obviously is part of this geography.

Fourthly, India sees its ties with Iran as facilitating its pursuit of Indian national interests in Afghanistan and, more broadly, in Central Asia and the Caspian Basin. In Afghanistan, New Delhi and Tehran both opposed the Sunni-dominated Taliban regime and have a strong interest in the success of efforts to stabilize post-Taliban Afghanistan and ensure its success. In Central Asia, ties with Iran will be helpful in gaining India access to markets, energy, and potential client states. India, unlike Iran, has no direct land access to Central Asia and the Caspian Basin.

Last but not least, the Iran relationship is helpful in illustrating India’s willingness to live amicably with the Muslim world. It also underscores the reality that India is itself an Islamic nation, both because India hosts the second largest Islamic population in the world and because its national culture has been deeply influenced by Islam. This is so notwithstanding the fact that the link with Iran is embarrassing to many of India’s Hindu nationalist politicians.

## ISSUES

**R**elations between India and Iran have been deepening with respect to most issues, especially security, energy, and the North-South Transportation Corridor.

Security relations appear to have been initiated in 2001 when Indian Prime Minister Vajpayee visited Iran and he and President Khatami issued a joint declaration in which they agreed to cooperate in maintaining peace and stability in the region.

This was followed by the visit to India of Iranian President Khatami in January 2003 at which time the two nations signed a number of agreements including a “Memorandum of Understanding on the Road Map to Strategic Cooperation.” The memo states that India and Iran will explore opportunities for cooperation in defense in agreed areas, including

training and exchange of visits. It also states that India-Iran defense cooperation is not aimed against any third country.

A variety of secondary sources have reported in more detail on the foregoing agreement, although it is not clear if this information is authoritative. Reportedly, India promised to upgrade Iran's fleet of Russian-supplied Kilo-class submarines and its MiG fighters. Iran also will be accorded access to other Indian military technology. Some sources also have reported that the agreement accords India access to Iranian military bases in the event of war with Pakistan, a particularly significant development if true. In March 2003, India and Iran conducted their first combined naval exercise. This exercise also was notable because it probably reflected Indo-Iranian discomfort with the mounting U.S. presence in the Persian Gulf and Arabian Sea at that juncture.

Indian engineers also are working to upgrade and develop the Iranian port of Chabahar. This initiative presumably is mainly intended to facilitate trade and is part of a larger Indian Ocean to North Sea initiative involving Russia and others, and mainly centered on the Iranian port of Bandar Abbas. Pakistani and Chinese observers, however, will worry that Tehran eventually will permit Indian naval forces to use the port and will regard developments at Chabahar as a response to China's own development of a Pakistani port and naval base at Gwadar, some one hundred miles eastward.

Close Indo-Iranian security ties may also be inferred from the reported presence of an unusually large Indian consulate, with presumed intelligence duties, on the Pakistan border (and also near the Afghan frontier) at Zahedan in Iran. India also established a new consulate at Bandar Abbas in 2002, a development that provoked Pakistan to protest that India will use this facility to monitor ship movements in the Persian Gulf and the Strait of Hormuz.

In the economic arena, the principal issues have been trade and energy, and the North-South Transportation Corridor. Indo-Iranian trade has been growing steadily with bilateral trade reaching around \$2.8 billion in Financial Year 2002-3. Though the import of Iranian crude oil worth \$1.4 billion retains its preeminent position in bilateral trade volume, Indian exports have grown to \$655 million of nonpetroleum products. New Delhi, however, believes it could be selling much more to Iran and that Iran needs to look to India, not the West henceforth, for its industrial imports. According to External Affairs Minister Sinha, "Iranian business and industry must look to its east, to India, in areas where Iran has traditionally depended on the West for technology, equipment, machinery, and industrial projects. The Iranian manufacturing sector should take note of the progress made by Indian industry in the manufacturing sector."

In December 2003, India proposed to Iran that the two states expand bilateral economic cooperation by forming a common market of India, Iran, and Pakistan. Iran's ambassador to India responded by assenting to the concept and commented, "We hope for an economic bloc of India, Pakistan, Afghanistan, Iran, and maybe Central Asia." According to the Iranian diplomat, "There is currently a gap between the ASEAN and the EU. As the only two democracies in the region, India and Iran can start a partnership to fill this gap."

Energy, of course, will remain the key commodity in the India-Iran economic relationship. For India, the energy relationship is vital in that energy security is seen as absolutely essential if India is to achieve great power status. According to the New Delhi Declaration, "Iran with its abundant energy resources and India with its growing energy needs as a rapidly developing economy are natural partners." To this end, in May 2003, Iran and India agreed that Tehran will supply India with 5 million tons of liquefied gas annually for twenty-five years and with 100,000 oil barrels per day for a trial period of a year. The agreement also provides for "exchange of experience in the field of com-

pressed natural gas production and reconstruction of refineries.” The former will allow Iran to speed up its replacement of oil with natural gas for domestic purposes, conserving Iranian oil reserves and reducing air pollution. As for the latter, India will help Iran upgrade its oil refineries, which Iran can only do partially on its own. Finally, the pact opens up other new opportunities for Indian companies to invest in Iranian energy. Taken together, these agreements could potentially turn India into a major energy player.

In addition to the foregoing, Tehran and New Delhi apparently are continuing to discuss construction of a natural gas pipeline from Iran via Pakistan (or via the Persian Gulf and Arabian Sea) to India. Such a project, however, faces a variety of obstacles, including New Delhi’s growing emphasis on shipborne liquid natural gas (LNG) imports (India began manufacturing LNG-carrying ships in 2002) and recent natural gas discoveries in India. It remains to be seen if the recent positive trend in Indo-Pakistan relations boosts interest in this project.

Another arena of Indo-Iranian cooperation is the North-South Transportation Corridor. The North-South corridor project, the result of an agreement among India, Iran, and Russia in 2000 (with Belarus and Kazakhstan joining later), is intended to link Mumbai—via Bandar Abbas in Iran—with St. Petersburg and thus the Indian Ocean with the Baltic Sea and Europe. The aim is to build the necessary roads and railroads, and to develop the required ports along the way in conjunction with streamlined customs and other procedures to make this route economical and efficient. Reportedly, the route—which will form part of the larger Asian Highway system of land and sea connections—will shorten cargo transit distance from the Indian Ocean and Persian Gulf regions to Northern and Eastern Europe by two thirds, as compared to the Suez Canal. Trade among the participating nations would increase substantially as would the level of interaction between Asia and Europe. The sea/land route began its official operation in early 2003 when a Russian freighter discharged its load at Iran’s Caspian Sea port of Anzali. A completed Transportation Corridor, however, will require the investment of large sums and years of sustained effort.

In this connection, India, Iran, and Afghanistan, meeting in Tehran in January 2003, signed a memo on the “Development and Construction of the Transit and Transport Infrastructure” with the intent of improving the route from Chabahar, Iran to the Afghan cities of Zaranj and Delaram. To this end, India has committed \$70 million for the construction of a road linking Zaranj and Delaram. Work on the project, for which the Indian armed forces will provide security, will begin in August. In addition, an Indian consortium has been engaged by the Iranian Ports and Shipping Company to undertake development work at the Chabahar port and on the Chabahar-Fahraj-Bam railway link.

Iran’s attractiveness as a route into Central Asia has been enhanced by virtue of Iranian investments in the 1990s in the Iranian rail network and in its expansion to the borders of Central Asia. A major step was the inauguration in 1995 of a 703 kilometer railroad connecting Bafg in central Iran to the port city of Bandar Abbas on the Persian Gulf. The presidents of Turkmenistan, Kyrgyzstan, Armenia, and Afghanistan and senior representatives of other neighboring countries attended the opening ceremony. The following year, Iranian President Rafsanjani inaugurated the Mashad-Sarakhs-Tredzen railroad in the presence of eleven heads of state, including Turkish President Suleyman Demirel. Iran already is connected by rail to Azerbaijan. The beginning of a weekly train service from Almaty in Kazakhstan to Tehran in March 2002, part of an agreement to revive the Silk Road in the framework of the Economic Cooperation Organization, marked another important step in this direction.



## THE U.S. AND ISRAELI FACTORS

The increasingly close ties that have been developing between New Delhi and both Washington and Tel Aviv complicate the Indo-Iranian relationship. Obviously, New Delhi will need to walk a tightrope to maintain close relations with the United States, Israel, and Iran simultaneously.

The Indian External Affairs Ministry, for example, recently commented: “The United States has its relationship with Pakistan, which is separate from our own relationship with them. Our relationship with Iran is peaceful and largely economic. We do not expect that it would affect our continuing good relations with the United States.”

India, of course, is well aware that its close ties with Iran will affect its relations with Washington. Indo-Iranian views on the future of Afghanistan or on the proliferation of weapons of mass destruction almost certainly will diverge from the U.S. perspective. Both India and Iran, for example, are interested in advanced space launch capabilities.

Most recently, the Indo-Iranian relationship likely factored in New Delhi’s interpretation of nuclear developments in Iran. In contrast to the U.S. interpretation of the evidence, the Indian Foreign Secretary stated in September 2003 that India sees “no evidence of Iran ... pursuing a nuclear weapons program or any other mischief-making.”

Similarly, the Indo-Iranian relationship will be one of the reasons—and there are others—why India will resist the U.S. Proliferation Security Initiative (PSI). As one Indian security analyst commented: “Incongruously, the most likely target for India as part of PSI would be the nation New Delhi needs to countervail Pakistan but with which the Bush team is in an ideological war—Iran. It would be bizarre if India participated in an enterprise that shielded the exporter of uranium centrifuges and weapon designs, Pakistan, but targeted an importer of some Pakistani centrifuges, Iran....”

India also has close and strengthening relations with Israel and is facilitating Israeli efforts to enlarge its strategic footprint in the Indian Ocean. In addition, large numbers of senior Israeli and Indian officials have exchanged visits, and military relations have become so close that many observers see the connection as practically tantamount to a military alliance. Iran obviously will not be pleased with this state of affairs, as Israel clearly will be worried by the Indo-Iranian relationship. New Delhi, however, apparently believes it can maintain close relations with both parties. During his September 2003 Indian visit, Israeli Prime Minister Sharon did raise the issue of India-Iran relations, including the potential leakage of military technology, with Indian leaders. Sharon, however, told the press that “we got answers to the questions raised and we are satisfied with the answers.” Iran, for its part, has been extremely accommodative and understanding of India’s links with Israel.

## CONCLUSION

**W**hile its long-range prospects are uncertain, the Indo-Iranian relationship probably will deepen in the immediate future, based on the current dominance of pragmatism in policy circles in both countries and on the range of interests that the relationship serves. This probably will occur notwithstanding the recent advent of a Congress Party-dominated government in India.

Obviously, the consequences of the Indo-Iranian relationship will not always suit U.S. interests. This would be much less so were the United States and Iran to effect a rapprochement. In any case, India will proceed carefully because its relationship with the United States, like those with Iran and Israel, is seen as enhancing and magnifying Indian power and as promoting India's agenda in Southwest Asia. For New Delhi, thus, the best scenario is one that allows it to strengthen its ties with **all** of these states. Some Indians probably also hope that New Delhi will be able to act as an interlocutor and play a role in promoting a rapprochement between the United States and Iran.

The development of close Indo-Iranian relations has the potential to become a key factor in the strategic environment in Southwest Asia and the Arabian Sea. If the relationship lasts, it will enhance the regional influence of India and Iran. This will be troubling for Pakistan and perhaps for Saudi Arabia.

The larger consequences of the Indo-Iranian relationship for peace and security in Southwest Asia are difficult to gauge. However, as these nations are among the most significant and dynamic states in the region, positive bilateral relations augur well for a variety of multilateral initiatives in the region and, independent of other factors, probably also for peace and stability in this part of Asia.