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Issue Brief

Modi's Visit to Iran: Will it provide a New Momentum to Bilateral Relations?

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S*ummary*

The forthcoming visit of Prime Minister Modi is going to be a significant step from the point of a much awaited visit from the Indian side. This is an appropriate time to engage Iran, take the relationship forward and concretise many pending projects on connectivity and energy cooperation. This could be a turning point in India-Iran relations and the beginning of new chapter in bilateral cooperation. Given its positive image India has to pursue a smart policy of strategic engagement in order to turn challenges into opportunities. The future of India-Iran relations will depend on how the two countries are able to accommodate mutual concerns and interests.

The Narendra Modi Government's diplomatic initiatives in 2014 were termed as "strong, proactive and sensitive" by External Affairs Minister Sushma Swaraj. On that occasion, she had added that the focus of the government's foreign policy has been the neighbourhood, followed by the Look East policy and then the Persian Gulf. However, the unfolding security situation and various long-term factors have led the Modi Government to increasingly shift its focus towards West Asia. India's increasing diplomatic activism towards the region is indicative of the Modi government's shift in its effort to build stronger economic and security ties with West Asian countries. Many senior Ministers have already paid visits to Israel, Egypt, Bahrain, Turkey, Iran and Qatar. Predicting the future course of India's policy towards the region, Foreign Secretary S. Jaishankar observed in early March 2016 that "Act East' would be matched with 'Think West'." ¹

Having concluded successful visits to the UAE and Saudi Arabia, Prime Minister Modi is now set to take India-Iran relations to new heights. What can be expected from his visit? In the recent past, India has struggled to sustain its strategic and economic ties with Iran under the shadow of Western-led sanctions, although it continued to buy oil and do trade with Iran. In the post-sanctions context, New Delhi has been making efforts to work through various mechanism to enhance its cooperation with Iran, supplemented by many important visits by business delegations, high level officials and Ministers. As background work to make Modi's visit more meaningful, Dharmendra Pradhan, Minister of State (IC) Petroleum and Natural Gas, and External Affairs Minister Sushma Swaraj visited Iran in April 2016. These visits reflected not only New Delhi's desire to re-invigorate bilateral cooperation but also to ensure that tangible results ensue from the prime minister's forthcoming visit to Tehran. Three key areas of cooperation are being looked at in this regard: energy, trade and economy, and connectivity. Before analysing the likely outcome of the Modi visit, it is useful to examine the rising Iranian expectations from India.

Iranian Perceptions and Rising Expectations

From the Iranian perspective, the potential areas of cooperation are many. Some of the important areas are security, economy, energy and infrastructure. Economic cooperation is the most significant element in this list. Investment in the petrochemical sector and in the Oman-Iran-India pipeline could be potential areas of cooperation. In fact, India is viewed as a country with a capacity to invest not only in the Chabahar port but also in other projects. India and Iran could establish joint refineries. In addition, since for both India and Iran the Indian Ocean is an avenue for connecting with various Asian countries, a focus on the Indian Ocean would be

¹ Speech by Foreign Secretary at Raisina Dialogue in New Delhi (March 2, 2015), March 02, 2016, available at http://www.mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech_by_Foreign_Secretary_at_Raisina_Dialogue_in_New_Delhi_March_2_2015.

good for regional security from piracy. In this regard, the Association of Indian Ocean Rim countries (AIOR) could be a good mechanism of cooperation.²

Within the Iranian academic community, it is argued that India and Iran are going to be natural partners in the South, Central and West Asian regions given their common interests, geographical proximity and regional realities. India's policy towards Iran is driven by its energy security, countering terrorism and building infrastructure to improve connectivity in the region. In the past, due to the imposition of sanctions, many projects were moving slow. However, after the removal of sanctions, there is forward movement on many projects and many new opportunities are opening up for greater cooperation. Indian's involvement in the Chabahar port project is termed as a "peace port" and "transit diplomacy".³ It is argued that India and Iran can be constructive contributors in dealing with the problem of terrorism in the region.⁴

From the Iranian viewpoint, both India and Iran need to understand the ground realities in the changed geopolitical situation in the region. As a friendly country, Iran expects India to understand its security issues and concerns. It is argued that India needs to have a long term approach on enhancing its cooperation in the area of connectivity and other trade-related issues and not look only at short term gains. Similarly, in the security arena, Iran believes that it is facing challenges on both the eastern and western fronts of its borders and it is therefore looking for partners who could help deal with these security challenges. It is suggested that there is a need to start a new chapter in India-Iran relations.⁵

While there is great optimism and rising expectations in Iran about increasing bilateral cooperation, the challenges cannot be ignored. The ground reality as articulated by an Iranian expert is that "India's ties with Iran are actually largely underdeveloped as compared to its much more substantive engagement with the Arab States in the Persian Gulf and Israel.... hence India-Iran relations can be best described as developing relations."⁶ While terrorism remains a common area of cooperation, and cooperation in economy and trade will also continue, the two countries are not indispensable for each other on these issues. Further, some Iranian experts are of the view that in the next 20 to 25 years, India and Iran may have to make strategic choices in the evolving global order. They believe that at present the US is the sole global power which has moreover decided to employ an offshore

² Based on the author's interaction with Morteza Samadi, Deputy Foreign Minister of the Islamic Republic of Iran, on March 8, 2016 in Tehran.

³ Views expressed by Prof. Mandana Tishe Yar during the IPIS-VIF Joint Forum on March 5, 2016 in Tehran.

⁴ Views expressed by Dr. Mostafa Zahrani, Director General, IPIS, during the IPIS-VIF Joint Forum on March 5, 2016 in Tehran.

⁵ See Note 2.

⁶ Reza Khalili, "Understanding the Nature of Iran-India Relations," *An Iranian Quarterly*, Vol. 11, Nos. 1-2, Fall 2013-Winter 2014, p. 104. Also see, Meena Singh Roy, "Geo-political Trends in Iran: Prospects for Re-energising India-Iran Relations," in Arundhati Ghose, ed., *West Asia in Transition* (Delhi Policy Group and Institute for Defence Studies and Analyses, 2015).

balancing strategy to deal with what it perceives as a major challenge from China. Fostering cooperation between India, Japan, South Korea and Australia is the American way of balancing China. In this situation, China is likely to form its own coalition, mainly a China-Pakistan-Iran triangle. Here, India is going to be in the US orbit. Since China is likely to bring Iran into its orbit, India and Iran will have to find a middle path to manage their relations. Iran's expectation from India is different as compared to that from China, US and Europe. India's strength, in the Iranian view, lies in 'soft power', but Iran does not expect 'soft power' from China.⁷

Some Indian experts have argued that "India requires to navigate its regional relationship more carefully, and also independently of the U.S. agenda".⁸ While China remains a major competitor for India in West Asia, Pakistan does not figure prominently in India's policy towards the region.⁹ There is general consensus among the Indian strategic community that Iran occupies a significant place in the West Asian region and that its strategic location connecting South, Central and West Asian region combined with its hydrocarbon reserves make a strong case for India's engagement. Some experts are of the view that "regardless of the impediments placed by Western sanctions, India-Iran ties are based on 'deep strategic considerations' emerging from India's vision of its role in regional affairs."¹⁰

In the present situation, despite lifting of sanctions, Iran has limited strategic choices to make. More importantly, its relations with Pakistan are not free from trouble. Despite rhetorical pronouncements from some Iranian experts about trilateral collusion between Iran, China and Pakistan, the difficulties which such a grouping could pose to India-Iran relations are not very realistic. In the post sanctions period, Iran is looking for strategic partners to address its economic problems. It is looking for countries who are willing to invest in its energy and infrastructure sectors. Here, India can play a key role. Indian Ministers in their statements have welcomed an expansion of all- out ties with Iran. Indian officials believe that "political instability can be offset through greater economic engagement with the region."¹¹

Is a new chapter of India-Iran cooperation beginning?

India's recent diplomatic activism to engage Iran and many optimistic signals coming from the Iranian leadership do create an impression that the upcoming visit of Prime Minister Modi could open a new chapter of cooperation. Interestingly, media reports

⁷ Views expressed by Prof. Nasser Hadian-Jazy, Faculty of Law and Political Science at University of Tehran during the IPIS-VIF Joint Forum on March 5, 2016 in Tehran.

⁸ P.R. Kumaraswamy, "India between Iran and the Gulf," Summary-Gulf Roundtable Series, October 5, 2015, CSIS, Middle East Program, Washington DC, available at www.csis.org/mideast

⁹ Ibid.

¹⁰ Talmiz Ahmad, "The Gulf Region", Malone David M., Mohan C. Raja, Raghavan, Srinath , ed. Oxford Handbook of Indian Foreign Policy, 2015, New York: Oxford University Press, pp.446

¹¹ Special Address by Shri Anil Wadhwa, Secretary (East), Ministry of External Affairs, India, during the 2nd West Asia Conference on January 20, 2016 at the IDSA.

suggest that among the meetings scheduled during the visit is one with Supreme Leader Ayatollah Ali Khamenei. If this meeting takes place, it would also indicate the increasing importance that Iran attaches to India at the political and strategic levels. The Supreme leader takes key decisions in the Iranian system and he does not meet many leaders. Therefore, a Modi- Khamenei meeting will put bilateral relations on a completely new path. Bilateral ties will also gain new momentum if major agreements in energy, connectivity and trade get a final shape during the Modi visit. The finalisation of these agreements has been pending for a long time.

In the energy sector, India is looking at the finalisation of the Farzad-B gas field agreement. India's Petroleum Minister has already conveyed to the Iranian side that Indian companies are willing to invest up to USD 20 billion in Iran's energy sector and that they are also interested in setting up petrochemical and fertiliser plants, including in Chabahar SEZ, either through a joint venture between Indian and Iranian public sector companies or with private sector partners.¹² In this context, some optimistic statements have come from Iranian officials. The Managing Director of the National Iranian Oil Company (NIOC), Rokneddin Javadi, has stated that in case the current technical negotiations succeed, the agreement on development of the Farzad-B gas field could be signed by the end of 2016. There is potential in trilateral energy cooperation between Iran, Oman and India for an under-sea pipeline which has been discussed for a long time without any results on the ground. In addition, the prospects of the Turkmenistan-Iran-India (TII) pipeline project is immense as it does not face any security challenge. This is the most doable project in the current context. Taking full advantage of the lifting of sanctions, Reliance Industries has now started buying crude oil from Iran after a six year break and is looking for a long term fixed quantity deal with Iran. Mangalore Refinery and Petrochemicals Ltd. and Essar Oil Ltd. are the main buyers of Iranian oil in India, importing about 10 million tonnes a year. Besides, the Indian Oil Corporation is planning to double its imports from Iran to 4mt this year and HPCL too is expected to pick up small quantities.¹³

The second area of cooperation could be in connectivity projects, especially Chabahar port, the International North South Transport corridor (INSTC), and trilateral cooperation between India, Iran and Afghanistan. Chabahar port is strategically vital for India to enhance connectivity with Afghanistan and Central Asia. The momentum of cooperation on Chabahar got a further push during the External Affairs Minister's recent visit, when both sides agreed that the contract as well as modalities for extending a USD 150 million credit for the port would be signed soon. In addition, the decision on this line of credit as well as a USD 400 million credit line for the supply of steel rails from India have already been approved by the Centre. IRCON officials are expected to visit Iran for discussions on the Chabahar-Zahedan railway

¹² "India links Rs 1.33 lakh crore investment in oil, gas, petro projects in Iran," April 10, 2016, available at <http://www.dnaindia.com/money/report-india-links-20-billion-investment-in-oil-gas-petro-projects-in-iran-2200433>.

¹³ Reliance used to purchase about 5 million tonnes a year from Iran earlier. It had stopped exporting gasoline to Iran in January 2009 and stopped buying oil from February 2010. "Reliance buys Iran oil after Six-Year hiatus," *The Hindu* (New Delhi), April 25, 2016, p. 15.

link.¹⁴ The text of the Trilateral Agreement among India, Afghanistan and Iran on Transport and Transit Corridors (Chabahar Agreement) was finalised during the second meeting of experts in Delhi on April 11, 2016. When the Agreement comes into force, it will facilitate better connectivity between the South, Central and West Asian regions. This will substantially increase India's connectivity with Afghanistan and Central Asia. More importantly, the Ashgabat Agreement, which came into force on April 23, 2016, is an important corridor connecting Central Asia with the Persian Gulf.¹⁵ India has already shown its desire to be part of this agreement and the Iranian side has supported India's inclusion. Turkmenistan, Iran, Oman and Uzbekistan are part of this agreement. The hope is that some of these connectivity projects would get finalised during Modi's visit.

Economic and trade relations are the weakest link in India's overall relations with Iran. India and Iran have been trying hard to enhance cooperation in this field. In a recent media interview, Petroleum Minister Dharmendra Pradhan expressed India's desire to become Iran's strategic partner when a new economy is taking shape in the post-sanction periods. Economic ties could get an impetus during Modi's visit if trade related agreements including on Double Taxation Avoidance and Bilateral Investment Protection and Promotion as well as an early launch of negotiations on a Preferential trade Agreement get finalised.

India and Iran have been close partners in dealing with the security situation in the region. They are located in different security environments in Southern and West Asia and thus there are no conflicting areas of interest between them. But new security developments pose a common challenge for both. The increasing instability in Afghanistan and the rise of the Islamic State (IS) are viewed by both as serious security challenges. India and Iran need to work out innovative ways of cooperation on countering extremist threats in the region.

Finally, the cultural dimension of India-Iran relations needs special attention. While some initiatives were taken during Swaraj's visit, new projects to enhance cooperation in education and culture would go a long way in strengthening these ties between the two countries.

Although much is expected from the Modi visit, the challenges to taking the partnership to higher levels cannot be overlooked. Some of the major challenges are:

(a) In the new post-sanctions Iran, India will have to be prepared to deal with competition from other regional and international actors who are already active in the Iranian market. European countries and China have already signed major deals with Iran. Russia is also looking at establishing long-term trade ties in the post JCPOA period. Legal barriers to banking relations between Iran and Russia are likely

¹⁴ "India, Iran closer to Chabahar deal after Sushma Swaraj's Visit," *Times of India*, April 18, 2016, available at <http://timesofindia.indiatimes.com/india/India-Iran-closer-to-Chabahar-deal-after-Sushma-Swarajs-visit/articleshow/51871245.cms>

¹⁵ Demir Azizov, "Agreement on Central Asia –Persian Gulf corridor enters into force," April 23, 2016, available at <http://en.trend.az/business/economy/2524083.htm>

to be lifted soon.¹⁶ China is all set to launch the Chinese built industrial town project as part of its commitment to develop Chabahar port city. China has already decided on a location for the project and will be developing the free-trade zone in a phased manner.¹⁷ During Xi Jinping's visit in January 2016, China and Iran reached an agreement to develop bilateral cooperation under a 25 year strategic plan, signing 17 agreements and an MoU to establish the joint Silk Road Scientific Fund.¹⁸ Not only China but European Union, South Korea, Japan and other countries are trying to get into the Iranian market and revive their old partnerships in the energy sector. For instance, Siemens Technology Director Siegfried Russwurm told the Iranian media that "Siemens is active in railroad, energy and utilities machinery, and oil and gas pipelines; there is a diverse pool of issues for Siemens to work on with Iranian side."¹⁹ Iran-South Korea ties are also taking a new shape, with the latter eager to promote joint ventures in shipbuilding, automobile production, construction and oil and gas. This month the South Korean President paid a historic visit to boost cooperation between the two countries.²⁰ Iran and Kazakhstan have signed 66 documents worth USD 2 billion in the public and private sectors in April 2016, including an agreement on establishing a joint shipping company.²¹

(b) Rising to meet Iranian expectations on India playing a much more active role by becoming a major investing country in Iran. New signals coming from the US suggest that global investments have not increased to the extent expected by Iran after the lifting of sanctions. Elizabeth Rosenberg, a senior fellow from the Center for A New American Security, told the US House of Representatives Foreign Affairs Committee that "For reasons of political and security risk, existing sanctions, and the serious financial challenges associated with attempting business with Iran, many global banks have made it clear that they do not plan on doing business with Iran."²² Under these circumstances, Iran is looking at Indian investments in its infrastructure and energy sectors. Investments will likely be an important factor at in determining closer

¹⁶ "Banking barriers to be removed soon between Iran, Russia: TCCIMA Chairman," available at <http://www.tehrantimes.com/news/300751/Banking-barriers-to-be-removed-soon-between-Iran-Russia-TCCIMA>

¹⁷ "Chabahar port to harbor Chinese industrial town," available at <http://www.presstv.ir/Detail/2016/04/27/462797/China-CMI-Iran-mega-port/>

¹⁸ "Iran, China agree to establish Silk Road Scientific Fund," available at <http://theiranproject.com/blog/2016/01/24/iran-china-agree-to-establish-silk-road-scientific-fund/>; "Iran's leader lauds Iran-China 25-year strategic relations agreement," available at <http://theiranproject.com/blog/2016/01/25/irans-leader-lauds-iran-china-25-year-strategic-relations-agreement/>

¹⁹ "Iran, Siemens very close to sign 'lucrative energy deal'," available at <http://en.mehrnews.com/news/116346/Iran-Siemens-very-close-to-sign-lucrative-energy-deal>

²⁰ "S. Korea eager to boost joint industrial partnership with Iran," available at [http://www.tehrantimes.com/news/300115/S-Korea-eager-to-boost-joint-industrial-partnership-with-Iran](http://www.tehrantimes.com/news/300115/S-Korea-eager-to-boost-joint-industrial-partnership-with-Iran;); "Iran-S Korea ties should be 'free of US effect'," available at <http://en.mehrnews.com/news/116288/Iran-S-Korea-ties-should-be-free-of-US-effect>

²¹ "Iran, Kazakhstan to build joint shipping company," April 12, 2016, available at <http://presstv.ir/Detail/2012/04/12/460344/Iran-Kazakhstan-Shipping-firm/>

²² "Iran investments still below expectations'," May 12, 2016, available at <http://www.presstv.com/Detail/2016/05/12/465274/Iran-investments-still-below-expectations-->

economic ties between India and Iran. The Indian private sector needs to be informed and guided to do business in Iran. India has moved forward on the project of setting up of a fertilizer plant in Iran's southeastern port city of Chabahar. The state-run Rashtriya Chemicals and Fertilizers (RCF), Gujarat Narmada Valley Fertilizers and Chemicals (GNFC) and Gujarat State Fertilizers Corporation (GSFC) have selected Bank Pasargad as the Iranian investor for the construction of a fertilizer plant expected to produce an annual volume of 1.3 million tons of urea. Indian companies are reportedly investing some USD 738 million in this project.²³

(c) Understanding the complicated Iranian system and accordingly navigating through it to gain maximum advantage. The decision making system in Iran involves approval at many levels and no decision will have any validity unless it is indorsed by the Supreme Leader.

(d) While nuclear related sanctions have been lifted, the general trade embargo remains in place. The US still maintains an embargo on Iran in terms of gaining access to the American financial system or directly conducting transactions in US dollars, among a series of other restrictions. It is very clear that if India is able to separate its business and investments without touching base with the US financial system it will be able to do business with Iran. There is need for greater clarity and understanding on how India can take full benefit of the lifting of sanctions and what the limitations with the existing trade embargo are.

(e) India will also have to navigate carefully between Iran and its arch rivals, Saudi Arabia and Israel. For India, its relations with both countries are extremely important. Some 3 million Indian workers live in Saudi. India has both cultural and religious ties with the two countries. So far India has managed to develop independent ties with each. And given the increasing rivalry between Iran and Saudi Arabia, India will need to craft a cautious and balanced policy.

The forthcoming visit of Prime Minister Modi is going to be a significant step from the point of a much awaited visit from the Indian side. This is an appropriate time to engage Iran, take the relationship forward and concretise many pending projects on connectivity and energy cooperation. This could be a turning point in India-Iran relations and the beginning of new chapter in bilateral cooperation. Given its positive image India has to pursue a smart policy of strategic engagement in order to turn challenges into opportunities. The future of India-Iran relations will depend on how the two countries are able to accommodate mutual concerns and interests. Now is the right time and opportunity to forward and finalise various pending projects in energy, connectivity and enhance trade and economic ties.

²³ "Indian firms team up with Iranian investor for Chabahar plant," May 11, 2016, available at <http://www.presstv.com/Detail/2016/05/11/465041/India-picks-Iran-bank-Chabahar-plant>

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