



Mapping India's response to Iran's global status and regional influence

Sumitha Narayanan Kutty
Takshashila Scholar (2014-2015)

EXECUTIVE SUMMARY

The time is now apt to calculate how Iran's international standing and its regional influence play out in the medium-to-long term and to prepare New Delhi for the various eventualities. The objective of this research document is to imagine how the variations in Iran's international status play out in different configurations of Iran's power in the Middle East, particularly in relation to its ideological rivalry with Saudi Arabia.

This exercise is important as Iran moves towards reintegration with the global economy. The approach taken here is to create scenarios based on the two variables that are most likely to change India's relationship with Iran: the status of international sanctions on Iran and the country's level of influence in the Middle East. This process of reintegration is also a byproduct of variables such as Iran's nuclear status, its economic health, energy production levels and regional equations that are further examined within the resulting scenarios.

The following *four* scenarios are explored in this document:

Scenario 1: COMPLIANCE

Iran secures a nuclear deal and its regional influence is on the rise

Scenario 2: STATUS QUO

Talks fail and sanctions intact but Shia ideology and militias make gains in the Middle East

Scenario 3: KHAMENEI'S NIGHTMARE

Iran remains under sanctions and its regional influence is on the decline

Scenario 4: ECONOMY OVER IDEOLOGY

Sanctions phased out and Iran chooses economic growth over an ideological agenda

It is most likely that Iran will decide to comply with a nuclear deal that limits its enrichment capacity and will deter it from acquiring the bomb, even as its regional influence will continue to grow. In light of this possibility, it is recommended that India focus on the following vis-à-vis Iran in the short term:

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- Fast track transit projects such as the Chabahar port and connecting railroads
- Intensify high-level diplomacy to be well-positioned if sanctions are lifted
- Create intelligence-sharing mechanism focusing on terror groups operating in Pakistan to complement existing joint working group (JWG) on terrorism
- Expand bilateral cooperation in Afghanistan to fulfil economic goals
- Diversify export items to bridge widening trade deficit
- Extend e-visas to Iranians to reverse suspension of visa-on-arrival for Indians

Today, Iran matters to India not only to fulfil energy needs but, increasingly, as a strategic partner in Afghanistan and a provider of land access to Central Asian markets.

Sumitha Narayanan Kutty is a Scholar with the Takshashila Institution, an independent think tank on strategic affairs and public policy contributing towards building the intellectual foundations of an India that has global interests.

To contact us about the research write to scholars@takshashila.org.in or visit takshashila.org.in

INTRODUCTION

Energy invariably dominates any conversation in India with regard to Iran. The country was New Delhi's second largest supplier of crude oil before sanctions hit in 2012. A second pillar of bilateral cooperation is the arena of transit and joint transport infrastructure development in the Middle Eastern country. Thus far, Iran's negative international status has translated most discussions on strategic interests to limited rather than substantive policy action.

The crippling nuclear sanctions levied by the United States in 2012 engineered a deep-seated transformation in Tehran's calculations. Breaking away from traditional sabre-rattling, the Iranian Supreme Leader Khamenei endorsed moderate candidate Hassan Rouhani's win in the 2013 presidential elections. Rouhani's primary mandate was to save the Iranian economy from further debilitation and within a year this translated into the country's delegation sitting across the table from the P5+1 parties (United States, Russia, China, Britain, France, Germany) and negotiating sanctions relief.

India has approached the situation with cautious optimism. It has always pushed for a peaceful resolution of the nuclear issue emphasising on diplomacy and dialogue. An internationally acceptable Iran will be welcomed by New Delhi. The reinvigoration of its bilateral relationship with Tehran will favourably impact India's strategic interests in its immediate neighbourhood.

This exercise intends to reveal some of the opportunities, challenges and questions that must be taken into consideration by Indian policymakers in their approach toward Iran. The author hopes the four scenarios are insightful, thought-provoking and maybe even provocative while presenting actionable policy recommendations.

THE APPROACH

It is important to note that the goal here is to not predict or project the future of Iran's international status and the changes in its regional influence but use available knowledge, objectivity and a futures perspective to inform decision-making in an uncertain world. In that sense, a scenario is not an 'end state' but merely 'one possible path to the future' (Mats Lindgren & Hans Bandhold, 2003).

The following assumptions were made under this exercise:

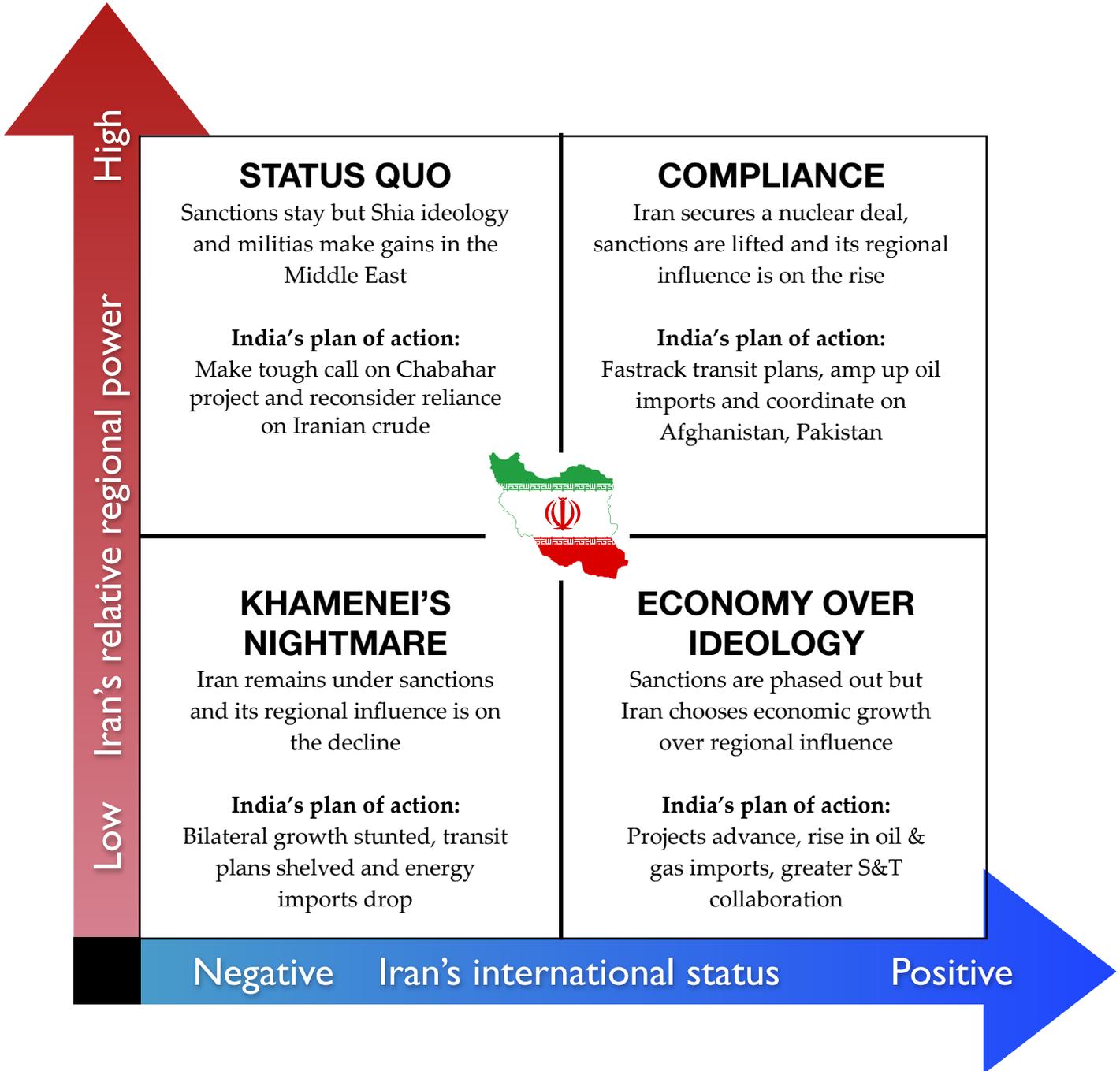
- Assumption 1
No single power or alliance is willing or able to provide much-needed global leadership. The international system is in 'geopolitical flux' i.e. diverse with no clear dominant global power
- Assumption 2
China is well on track to become the largest economy and countries muddle through with average growth globally
- Assumption 3
The global energy system comprises of supply-side driven national energy policies with the demand for natural gas (including shale) rising and a slump in oil demand keeping prices low

Four distinct scenarios have been selected on plausibility (not to be mixed with likelihood) and significance. The two variables used to define these four scenarios are: the status of international sanctions on Iran and Iran's regional influence in the Middle East.

In order to build the most convincing case for each of these scenarios, a number of questions were posed on several 'drivers' that would help detail each scenario.

- What does Iranian oil production and sale look like in each scenario? How does the economy fare?
- In what way does Iran's political system react?
- How does the country's foreign policy discourse change with each scenario?
- Is there an appetite for greater proxy warfare and continued participation in rivalry zones like Iraq, Syria and Afghanistan?
- What does the scenario assume about Iran's nuclear program?
- How should India strategise in each case

Iran’s global status and regional influence: a scenario map



Scenario 1: COMPLIANCE

Iran secures a nuclear deal, sanctions are lifted and its regional influence is on the rise

Iran and the P5+1 countries agree on a phased nuclear deal where the sanctioned nation would be rewarded for good behaviour in the final years of the pact. This would leave enough time for the international community to detect and flag any effort on Tehran's part to pursue weaponisation.

With regard to Iran's nuclear program, regular verification, monitoring and inspections are carried out to ensure compliance with the terms of the P5+1 agreement. The need to break out is further deterred by growing regional influence and a more positive view of Iran vis-à-vis its rival Saudi Arabia. This rivalry continues to play out in the Organisation of the Petroleum Exporting Countries (OPEC) though the global issue of oversupply (given the contributions of non-OPEC producers) diminishes Saudi Arabia's power as swing state. The kingdom is unhappy about losing a small share of its exports to the Iranians. What is of consolation though is that Iran has a lot of catching up to do within the cartel, thus posing no immediate threat.

Given limited sanctions relief, crude oil sales see a gradual rise, with Asian buyers such as China, India and South Korea increasing their intake. Reinsurers steadily regain the confidence to do business with Iranian shipping companies giving further impetus to the country's exports. Crude oil production is ramped up depending on the extent to which the oil sales cap is raised within the terms of the nuclear deal.

Pressure on the economy is eased further with increased energy sales and investment delivering growth in the GDP, strengthening the Iranian rial and gradually reducing inflation in the country. Investor confidence receives a boost with some international banks rebuilding ties and the country is reconnected to the SWIFT payment system. It takes about two years for large inflows of funds to appear but the mood is of genuine but cautious optimism as businesses queue up to participate in the 80 million-strong 'last frontier market' in the world. In this period, there will also be an increase in reverse migration with Iranian diaspora leading many of these business initiatives that will put the new environment to the test.

The political milieu in Iran remains stable with regime survival high. Supreme Leader Ayatollah Khamenei is popular amongst his people and hailed as the man who brought an end to Iran's economic woes and the nuclear deal with the West is sold to the masses as a major foreign policy success. The Iranian president (Rouhani or his successor given elections scheduled for 2017), meanwhile, faces the daunting task of introducing a string of slow and sensitive domestic reforms, the realisation of which hinges completely on Khamenei's continuing support of his presidency.

This process of domestic reform is made more arduous by the hardliners who see the deal with the West and curbs on Iran's nuclear program a betrayal of national interests. The Iranian

Revolutionary Guard Corps (IRGC or *Pasdaran*), a major political and economic player, are with the hardliners on the fact that the nuclear deal encouraged the opening up of the Iranian economy to foreign interference. The group will be placated if they continue to have a big piece of the action (read investment). Emulating the Chinese, business in Iran will continue to be intertwined with the interests of the state and the military. Another struggle that will play out is that between the clergy, its influence over the rising middle class and a younger generation that is increasingly disconnected from Iran's revolutionary tenets and looking toward international reintegration and global economic participation. These tensions encourage the rise of a second generation of pragmatic conservative politicians in the political ranks.

In the run-up to the presidential elections that are scheduled in 2017, more reformists file nominations. However, the vetting process remains in the hands of the members of the Guardian Council controlled by conservatives. It is possible that a greater number of 'safe' moderate candidates are approved to run for president.

This scenario also involves the rise of Iranian regional power especially in terms of the spread of Shia ideology through the funding, arming and training of pro-Iranian terrorist groups and militias. Despite growing international acceptance, Khamenei and the IRGC are less inclined to relinquish their control over regional assets such as Hezbollah and Hamas. Given the better economic situation at home, greater financial assistance is diverted to these groups. Flush with cash, these groups continue to pursue their political goals with renewed vigour. Of course Tehran may at any time choose to re-assess the performance and necessity of each group and tailor their funding according to the shifting regional political and security requirements. In traditional Sunni-Shia rivalry zones such as Iraq, Iran continues to lead the pushback against the Islamic State (IS) by Iranian-backed militias. The preservation of the Iraqi government in Baghdad is a fundamental foreign policy objective in Iran's immediate neighbourhood. With the easing of sanctions, patronage links in western Afghanistan, primarily Herat, are further strengthened.

One of the foreign policy priorities of Tehran at this juncture is bringing the Europeans back into the fold, reestablishing and shoring up diplomatic and trade relationships. The British deliberate on upgrading the Charges-d'affaires portfolio to a full ambassadorship while further down the line, the United States debates sending a trade representative possibly based at the neutral Swiss embassy, once bilateral relations improve incrementally.

India's Approach

This series of events naturally reinvigorates the Indo-Iranian bilateral relationship which slipped into a lull in the last decade. Iran, no longer a pariah state, encourages India to pursue mutually beneficial strategic, geopolitical and economic ties.

With Iran's improving international status, India should proceed to fast track its transit plans in the region, aiming to connect to Afghanistan, Central Asia, Russia and Europe through Iran and

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bypass Pakistan. Now that Iran's economic standing is gradually improving, India expects Tehran to share the economic burden where possible and cooperate to prevent further delays in these projects. The Chabahar port project in Iran's south-eastern coastline should then proceed as planned with a few bureaucratic delays on either side, merely a part of the process.

Eased sanctions prompt New Delhi to step up crude oil imports from Iran, a much closer source than Latin American or African ones. Major Indian oil refiners renew business particularly once the problem with reinsurance is solved and insurance cover becomes available to them. Indian oil majors should expect the bid for Iranian hydrocarbon projects, both old and new, to become extremely competitive with European companies now entering the process.

Iran's natural gas capabilities may take a while to come online given it has to build up its infrastructure from a state of disrepair. Once necessary investment and technology is made available with the lifting of further sanctions, Iran finds a keen customer in energy-starved India. With regard to the various natural gas pipelines – the Iran-Pakistan-India pipeline and the undersea pipeline with Omani support – the projects continue to remain unfeasible for India with political and security calculations stalling progress.

On the Afghanistan question, both countries should put their heads together to figure out how to stay relevant to its president. Ashraf Ghani, unlike his predecessor Hamid Karzai, has been working to improve relations with Pakistan which is helping broker talks with the Taliban. India, having only a limited footprint in the country, values Iran's political and ethnic networks in Afghanistan. The destabilising effects of a spillover in the eventuality of a weak civilian government in Kabul and a resurgent Taliban insurgency greatly concern both countries and this will bring them closer on the issue.

At the centre of this predicament lies Pakistan. Iran and India, despite their varied histories with the country, see eye to eye on it being a hotbed of terrorism and rising sectarian violence. Pakistan's Saudi leanings remain worrisome for Tehran. The bilateral dialogue on counter-terrorism and intelligence sharing must be stepped up within the Indo-Iranian joint working group (JWG) on terrorism.

With Iran back in its energy mix, India is happy to reduce its dependency on Saudi oil and continue its balancing act with both Islamic powers. Keeping in mind the flaring conflicts in the Middle East, particularly the threats posed by the Islamic State in Iraq, India banks on Iran to assist in the instance of humanitarian emergencies such as the rapid evacuation of Indian citizens and protection of other regional assets. On the bilateral trade agenda, India must push for a speedy resolution of Iranian issues with regard to Indian exports of rice, tea and soya.

Iran's wish list includes movement in its request for Indian investment in its steel and mining industries. The proposed Steel Authority of India (SAIL) plant should proceed as planned marking India's first major investment in Iran. Such cooperation should also be extended to the

Iranian railway sector with Indian companies (SAIL, Jindal) supplying rails to Iran Railways and offering technical assistance to construct railway lines and build wagons. Rebooting naval cooperation with Iran will also enhance efforts to secure India's strategic interests in and around the Indian Ocean Region.

Cultural and educational exchanges and sports interactions should be encouraged. The rich tradition of cinema and the shared popularity of traditional sports such as wrestling and kabaddi provide great opportunities for soft diplomacy.

Scenario 2: STATUS QUO

Sanctions stay but Shia ideology and militias make gains in the Middle East

With the collapse of the nuclear talks, Iran loses its relief window with sanctions returning to 2012-2013 levels. Following such an outcome, the United States and the European Union ratchets up sanctions on the country further, working overtime to ensure the onus of failure squarely falls on Iran. Russia and China are also urged to cooperate in punishing the country.

There is now no deterrence to achieving breakout in the Iranian nuclear program. Khamenei has the Iranian people on his side having convinced them of their country's inalienable right to civil nuclear power, particularly for energy and medical research. With nationalist passions backing the program, Tehran ramps up nuclear activities and crosses the nuclear threshold.

Oil production remains low with energy sales continuing to drop given the cap on purchases. This time around, the United States does not grant waivers to some key Asian recipients of Iranian crude such as India, China or South Korea and the appetite to skirt around these sanctions among its traditional trade partners diminishes further.

Accordingly, the economy's health deteriorates. A fall in Iran's GDP is recorded along with the further weakening of the rial against the dollar. Inflation returns to 2013 levels hovering around 40 percent. Iran's business climate remains unfavourable with tight government control, a tough legal environment and the domestic market largely cut off from the EU and the United States. Trade relations are invariably limited to cross-border transactions with a few inherent complications. For instance, Iranian traders, hungry for foreign exchange, buy up dollars from neighbouring economies driving their currencies down.

The Supreme Leader tightens his ship with support from the hardliners and the IRGC . The president is once again reduced to a 'dummy figure' with the next election in 2017 following the pattern of 2009. Khamenei will pick a 'yes man' of his choice from the conservative camp and rig the voting process to ensure his win. Pleased that the nuclear negotiations failed, the hardliner factions are happy to call the shots again without any reformist pushback. With a return to status quo, the clergy holds tight to its influence over the population while the formerly optimistic middle class beats a retreat to a life of economic duress.

The versatile IRGC interestingly represents Iran's military-industrial(-terrorist-political) complex. The group is happy to remain in control of several hundreds of companies in the engineering, construction, oil and gas industries of Iran. The power the IRGC wields and its rising strength in this period will add fuel to Khamenei's existing fears and insecurities regarding the group's control over Iranian affairs.

In Iran's neighbourhood however, its influence remains intact and on the rise with organisations and militia funded by it thriving well in the region. With no stakes left in international reconciliation, Iran steps up the funding, arming and training of fighters in the region and continues to provide direct aid to Hezbollah, Hamas and other Palestinian terror outfits. In Syria, Iran digs in its feet pushing vehemently against anti-Assad forces while in Iraq,

the country rules out any form of cooperation with American forces and poses effective resistance to the threat the Islamic State poses to the pro-Iranian government in Baghdad.

However, the Afghan government poses a challenge to business-as-usual given the president's appetite to accommodate Pakistan and his emphasis on anti-corruption (Tehran's much reported 'bags of cash' modus operandi will now not work to win influence in Kabul). The growing pushback against its growing influence and surreptitious activities in Herat in western Afghanistan could restrict overt dealings with traditional allies (such as the warlord Ismail Khan). Given that animosity with the US is at an all time high again, Tehran returns to its policy of looking the other way as the IRGC and Iranian non-state actors engage with the Taliban, providing it with "measured support" (it remains unclear which factions these are) to further antagonise Washington's interests in Afghanistan.

As the above indicates, Iran's foreign policy returns to being 'adventurous' and Tehran is not risk-averse in its geopolitical calculations. It now turns its attention to other areas where the Sunni-Shia sectarian conflict is intensifying such as Bahrain and Pakistan, increasing support (providing arms where applicable) and generous funds to Shia groups. Reacting to Iran's aggressive regional stance, the Saudis counter with the increased prosecution of Shia clerics (rise in death sentences) in the kingdom. Riyadh is also encouraged by Iran's shrinking quota in the OPEC, giving way to Saudi Arabia's undisputed reign in a market in the throes of an oil price slump.

India's Approach

Bilateral relations remain greatly constrained by the continued presence of sanctions. India has to make tough choices now and work with what is available in this situation.

India should, at the very minimum, continue to push for the completion of the Chabahar project and its connecting routes to Afghanistan. It is very likely that New Delhi will have to foot the entire bill since Iran continues to be under heavy financial strain. India will have to either cut its losses and exit or put the project in cold storage yet again and await a more favourable investment climate. Given this situation, grander multilateral projects, such as the International North-South Transport Corridor (INSTC), drop in India's list of strategic priorities.

Iran now looks increasingly replaceable in India's oil mix especially if the United States does not continue to grant waivers. As a result, New Delhi gulps in more Saudi and Iraqi (if supply routes remain secure) crude and should work hard to diversify further into Latin American and African sources. The much-delayed pipelines are further unfeasible.

Iran doubling down on its belligerence toward the United States in Afghanistan puts India in a tough spot. There is more work cut out for it with regard to understanding what makes the unity government in Kabul tick. Building and sustaining patronage networks look tougher now particularly if New Delhi wants to increase its geo-economic footprint in Afghanistan.

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Pakistani instability and its effects on the shared neighbourhood will remain a point of discussion for Iran and India with delegations holding the occasional consultation within the JWG when possible.

Iran desperately needs its Asian buyers on board and India, coming only second after China in purchases, is crucial for the oil exporter to ride out the sanctions storm. If the US fails to grant waivers, Iran banks on using its oil payments stuck in rupees in UCO Bank to finance humanitarian and medical imports from India. On the flip side, Iran could tighten import controls on rice, soybean, etc. making it further difficult for Indian farmers and traders to do business.

Scenario 3 – KHAMENEI’S NIGHTMARE

Iran remains under sanctions and its regional influence is on the decline

For the Iranian Supreme Leader, the unthinkable is happening – shrinking space for Shia ideology, reduced political sway in the Middle East and his country falters under crippling sanctions. The situation spurs nuclear enrichment and Iran is incentivised to weaponise to regain lost regional importance.

In this scenario, Iranian crude production remains capped with its list of buyers reduced to a trickle of those willing to violate western sanctions, if waivers are not granted by the United States. This results in poor economic health and drop in GDP, a weak rial and skyrocketing inflation (returning to 40pct or more). Doing business in Iran is difficult with the environment returning to one that is increasingly unfavourable with tight government control and fears of expropriation high.

Regime survival is high as Khamenei tightens his grip on national resources and exercises complete state control over goods and services. Decline in regional influence and economic gloom at home heighten the Supreme Leader’s insecurities, and this list includes the economic benefits enjoyed by the IRGC. The guards who are in essence Iran’s military-industrial complex and powerful deal brokers (both political and economic) focus on further consolidating their financial wealth with a spurt in national contracts in the oil and gas sectors, among other areas. With rising influence, the group pushes for greater visible political participation or power-sharing which would be a major cause of concern for the Supreme Leader (commander-in-chief).

Given the political uprisings in the Middle East, an extreme scenario could see the powerful lobby cutting the supreme leader to size and projecting itself increasingly as the people’s voice, as the army first behaved in Egypt, to only wrest political control out of the hands of the *Majlis* later.

Meanwhile, the president is cut down to size and his position is increasingly irrelevant to decision-making in the Iranian political system. The election in 2017 is a farce. It has a bevy of Khamenei loyalists as candidates with a designated winner handpicked by the Supreme Leader ahead of voting day. Hardliners remain top-dog in Iranian politics, with their distrust of the west validated, but are threatened by reduced regional influence and feel vulnerable to domestic discontent. The clergy are all-powerful in this setting and push for greater policing of ‘personal freedoms’ following which there is a rise in moral policing, greater repression of women’s rights, etc.

Khamenei in consultation with the IRGC recalculates the strategy on proxy groups. Although now a nuclear power, Iran does not have the necessary financial bandwidth to intensify and further diversify in proxy warfare as much as it would like to. The funding, training and arming of the various terrorist and political groups will need to be triaged with the more effective groups receiving the greater chunk of aid. With no external donors doling it handouts like in the case of Pakistan, the cash-strapped Iranian leadership makes some tough choices. Its slipping clout in the Sunni-Shia conflict is a more challenging predicament. Chances remain

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high that its patrons are forced to look elsewhere for willing, cash-flush sponsors as wide support for its ideology drops.

It is a good time for the Saudis and various Sunni rebellions. Iran is losing its fight against the IS in Iraq and beating a hasty retreat with a clear idea of not repeating its 1988 humiliation. The country loses its hold in Syria as rebel forces overthrow Assad while in Afghanistan, Iran reverts to its duplicitous policy of supporting fringe elements of the Taliban to antagonise American interests on the ground. The country finds camaraderie in fellow 'rogue' nations such as Venezuela and North Korea and major share of its (non-sanctionable) trade remains confined to its immediate neighbourhood.

India's Approach

With Iran branded a pariah state, India's plans for a secure transit route to Afghanistan and the completion of the Chabahar port hit roadblocks. As New Delhi deepens its ties with the United States, engagement with a sanctioned Iran sans reproach proves immensely difficult. Tougher sanctions against Iran could include the hitherto overlooked non-energy infrastructure sector. It could become particularly tricky if India pushes for greater investment from Washington in the same sector back home.

With reduced chances of a waiver from the United States on Iranian crude imports, India needs to mull over the costs of doing business with the country. Iran's share in its energy basket is ultimately replaceable with crude from alternate sources.

Iran now seems increasingly less appealing as a partner in Afghanistan with Kabul taking steps to work against the United States. India, which looks favourably upon American troop presence, finds it difficult to work with the Iranians given such hostile motives. With Afghan interests not aligning, bilateral discussions with India on the issue take a backseat. Though common concerns remain over instability and growing extremism in Pakistan, Iran will remain preoccupied with containing the sectarian aspect of this conflict at its borders first.

For India, which has expended energy on a balancing act in the Middle East, the growing power of Sunni extremism is worrisome. New Delhi should work to keep a closer eye on not only sectarian dynamics within the country but also improve its capabilities to monitor the flow of funds from pro-Sunni organisations and individuals within the KSA, Qatar, the UAE, and the like.

Scenario 4 – ECONOMY OVER IDEOLOGY

Sanctions are phased out but Iran chooses economic growth over regional influence

This last scenario is an outlier. Its occurrence is of low likelihood and triggered by a wild card – an unpredictable internal or external event – but has a very high impact on how Iran views itself in the world. Iran signs up for a phased nuclear deal, welcomes the further easing of sanctions and opens up its recovering economy to foreign investment. At the same time, it is losing the ideological war in the region and facing defeat in most Sunni-Shia rivalry zones such as Syria (Assad overthrown) and Iraq (IS gains or pro-Saudi government installed in Baghdad).

In this scenario, the leadership of Iran makes a conscious decision to focus on the ‘self’ – become a ‘developmentalist state’ (first emphasised in the country’s 20-year plan in 1990) where economic success and not the ‘export of the revolution’ is at the core of revolutionary philosophy.

It is clear that the Iranian political system needs a major shock for such a decision to become the norm. Three possible triggers are discussed here.

In the first sub-scenario, a successful revolution is the trigger. This revolution, led by the burgeoning middle class, reflects their desire for a leadership that puts Iran first and guides its positive engagement with the neighbourhood (no interference abroad) and the world (uphold nuclear deal).

In a second sub-scenario, the advent of a pragmatic Supreme Leader after Khamenei’s death alters Iranian priorities. The new leader advocates domestic well-being and a non-interference policy abroad. Of course, such radical thinking would require an equally radical change in his support network ie. the clergy, hardliners, IRGC, etc.

In a third and more plausible sub-scenario, the leadership decides to emulate the Saudis – foreign business is more than welcome as long as they live by Iranian rules, do not interfere in governmental affairs or question the way of life. The president manages the economic front with the IRGC playing facilitators. The clergy, backed by conservatives and hardliners, ensure citizens abide to the Islamic state’s code of conduct in public and private spheres. It is however uncertain whether the burgeoning Iranian middle class, finding itself benefitting from economic opportunities but extremely limited in personal freedoms, remains satiated for long.

India’s Approach

Iran choosing a path of economic growth sans the intent of ideological dominance is a scenario India can work with quite well. The various existing pillars of cooperation – energy, transit, steel and mining – are open for business with many more areas of interest increasingly under discussion. Land access, a secure (proximate) supply of hydrocarbons and closer political partnerships in its shared neighbourhood are ideas that can certainly be translated into reality.

The completion of Chabahar, the routes connecting it into Afghanistan, and the INSTC guarantees land transit for Indian goods into Central Asia, Europe, and Russia. With greater

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ease in doing business, both countries should also advance investments in the Iranian railway sector in conjunction with steel and mining opportunities.

India welcomes Iran's return as a key hydrocarbons source. Apart from amping up crude oil imports, it must monitor Iran's completion of the Iran LNG (NIOC) terminal under construction in Tombak. Once operational, Tombak would offer a new source of natural gas and if competitively priced, this would be a win-win scenario for both countries in the long term. Indian oil majors such as Reliance and Essar (that previously backed out due to American pressure) could ultimately reconsider going back in and competing for investment in Iran's oil and gas sectors.

The Afghan government reestablishes close relations with Iran given its thaw with western countries. This change in Kabul's stance would be hugely beneficial to India as well which sees a safer ally in Tehran to thwart Pakistan's mandate in Afghanistan. New Delhi finds a strong partner in Iran to contain Pakistan and the spillover. Further down the line, closer maritime cooperation between the two navies should be explored.

Science, engineering and health cooperation is yet another emerging area. The scientific aptitudes of both nations translates into greater collaboration (under the IORA, for instance) and must be expanded to include information technology (IT), information technology enabled services (ITES), communications, and medical equipment.

Regionally, the setback faced by the Shia in the Middle East has major repercussions for the Indian subcontinent. The form Sunni extremism takes as it reigns unchallenged involves huge unknowns. India will need to partner with as many like-minded countries, including Iran, to combat and contain the rise of such extremism, particularly within its own borders and next door in Pakistan.

Conclusion: India's Immediate Action Plan

The baseline outlook in this analysis is Iran securing a nuclear deal at a time when its influence in the Middle East is rising. Given New Delhi's limited influence over both outcomes, it must now make do and work with the options available to it.

India should continue emphasising dialogue and diplomacy in the nuclear issue and encourage all parties involved to work toward an agreement by the designated deadline.

What India can do until that time is *leverage the current window of sanctions relief and fast track transit projects* that provide regional access and connect us to Afghanistan, Central Asia and Europe. Connecting Chabahar to the relatively new port of Mundra in Gujarat is another strategic idea that the Iranians have voiced interest in. This would be the time to hash out those details.

Having accepted Iran's invitation, *Prime Minister Narendra Modi is expected to pay an official visit to the country. It would be prudent to do so at the earliest* given the critical juncture that Iran is at vis-à-vis the global economy. The visit would also be an opportune moment to address various Indian grievances at the highest level.

Modi should *obtain assurances from Tehran on thorny issues such as the curbs on basmati rice imports and the problem of a widening trade deficit*. One way the latter can be achieved is by bumping up exports of tea and pharmaceuticals from India – a plan in the works.

The resumption of Iran's visa-on-arrival scheme for Indians traveling to Iran should also feature in bilateral discussions. Iran dropped the scheme in March 2014 after repeated requests for a *quid pro quo* from New Delhi failed to materialise. Irrespective of whether a nuclear deal is reached between Iran and the P5+1, *New Delhi should consider extending its new e-visa policy to Iran*.

In order to realise its strategic goals in Afghanistan, India needs to expand its discussions with Iran, a powerful regional ally. Iran provides the possibility to bypass Pakistan and fulfill regional ambitions specifically on trade and transit. Connecting the Hajigak steel plant to Chabahar by railroad is one such project that has received trilateral endorsement.

Both countries should step up intelligence-sharing on Pakistan-backed terror groups outside of the existing joint working group (JWG) on terrorism. The dialogue, established in 2003, presently focuses on Afghanistan and counter-narcotics operations. It will be made more robust with the exchange of information on how different Pakistan-backed groups operate in the shared neighbourhood. India and Iran are both uneasy about Afghan President Ashraf Ghani's propensity toward Pakistan (especially brokering talks with the Taliban). A rise in border attacks by perpetrators sheltered in Pakistan in the south-eastern Iranian province of *Sistan va Baluchestan* should incentivise Tehran to see eye-to-eye with New Delhi on the threats emanating from that country. More importantly, the Chabahar project is located within this very province.

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Looking back, India lost a historic opportunity to initiate a rapprochement between the United States and Iran. Oman pulled off that feat with great dexterity becoming indispensable to the success of the nuclear negotiations. Looking forward, here's some food for thought – a corollary to India's engagement with Iran.

New Delhi must further its relationship with Oman in the short term. The country was the first GCC member to hold two high level visits to India in the last year. Increased naval engagement is one area that drives bilateral outreach. Oman, Iran and India have also in the last year toyed with the idea of a deep-sea natural gas pipeline project. At the time of writing, Yemen is in the throes of civil war. For India, any Pakistani involvement in this war has ramifications. If past is prologue, Oman – the only Gulf Cooperation Council (GCC) country to have stood neutral in this conflict – will emerge as a key mediator proving that the Omani kingdom is India's much needed 'moderate' ally in the Middle East.

It is critical that New Delhi acknowledge that up until now Tehran's pursuit for investment in Chabahar and other projects hinged greatly on the absence of other competitors (read China) with deeper pockets who can outspend India in a jiffy. Iran chased Indian investment in its oil and gas sectors because of the limited number of players willing to do business with it given sanctions. This particular landscape will change once the nuclear deal comes through. New Delhi must be prepared to compete with European (Eni, Total, Royal Dutch Shell have expressed interest) and Chinese oil majors. The signs are there. In May this year, Iran withdrew its long-standing offer to Indian firms to participate in the development of the Farzad B gas field.

As ironic as it may seem, a nuclear deal and Iran's reintegration into the global economy are not necessary preconditions for India to meet its immediate strategic priorities with regard to Iran. What is in fact needed is strong political will on the part of the Modi government going forward. It must continue to prioritise the proverbial low-hanging fruit(s), particularly transit, to inject some much-needed energy into the India-Iran strategic partnership.

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Cover Image: Flag of Iran in Map (source: [wikipedia commons](#)) and Flag of India in Map (source: [wikipedia commons](#))