

US Sanctions against Iran and Their Implications for the Indo-Pacific

Written by Gabriel Honrada and Daniyal Ranjbar

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GABRIEL HONRADA AND DANIYAL RANJBAR, DEC 15 2020

India's relationship with the United States within the Quadrilateral Security Dialogue (Quad) framework is complicated as India has a strong strategic partnership with Iran, which is an US adversary. US sanctions against Iran pose a dilemma for India. In 2019, India was the third largest buyer of Iranian oil, with 258,000 barrels per day, and in the same year, Iran was India's third largest supplier of oil, after Iraq and Saudi Arabia. Allowing Iran to sell its oil unhindered to India would give the former additional resources to continue its activities inimical to US interests, such as missile development, funding proxy militias, and its nuclear programme. However, US sanctions on Iran have significant effects on India and its ability to be a reliable member of the Quad, with further security implications for the Indo-Pacific region.

Overview of US Sanctions on Iran

Sanctions have long been a part of the contemporary history of Iran, especially after the 1979 Islamic Revolution. The history of these sanctions against Iran can be divided into two stages. The first stage is that of US unilateral sanctions from 1979 to 2005, and the second stage is that of multilateral sanctions from 2006 to present. Sanctions against Iran cover five distinct areas, which are:

- Technology, investment and military equipment: These sanctions aim to limit Iran's military capability and oil and gas production.
- Restriction of financial transfers: These sanctions were imposed in 2010 and aim to prevent the entry of foreign exchange earnings into Iran's business cycle and to reduce the country's trade capacity.
- Central Bank sanctions: These sanctions were imposed in 2011 and 2012 with the participation of the EU and US; they aim to prevent Iran's Central Bank from accessing foreign exchange earnings, devalue Iran's currency and restrict trade as much as possible.
- Oil and gas sales sanctions: These sanctions were imposed in parallel with the Central Bank sanctions and aim to reduce Iran's revenue from oil and gas sales and disrupt key variables of the Iranian economy, such as the value of its currency, its government budget and foreign trade.
- Prohibition of trade in precious metals and freezing of funds: These sanctions were imposed by the EU in late 2012 and the US in early 2013; they aim to limit Iran's accumulated foreign exchange earnings in other countries.

Sanctions against Iran are characterized by strategic flexibility and adaptability. They are designed to have maximum negative and deterrent effect on Iran, while having minimal effect on the imposing countries. Further, these sanctions are overseen by a monitoring committee which can adapt the sanctions in response to Iran's efforts to subvert them. Moreover, these sanctions have extraterritoriality, or can be extended to other countries dealing with Iran. In addition, the US and EU pressures other countries into complying with sanctions against Iran. The US President also has

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special powers to impose sanctions without the need for Senate authorisation. As a result, Iran is facing a complicated foreign policy situation. Sanctions have forced Iran to be ingenious in its interactions with other countries, especially with those that it has strategic partnerships with, such as India.

The Iran-India Strategic Partnership

Iran and India have a partnership with a long history as they had a common border until the creation of Pakistan in 1947. Since then, their strategic orientations have undergone many changes. Until the 1979 Islamic Revolution, Iran was among the staunchest allies of the US. In contrast, India cultivated a longstanding strategic partnership with the Soviet Union, which continues to the present with Russia. Presently, India's interests with Iran are driven by energy imports, its dealings with Pakistan and China, and its interest in having access to Central Asia. In turn, Iran's interests with India are driven by its need to find alternative energy markets and to escape international isolation.

Energy is the most critical aspect of Iran-India relations. Iran has the world's fourth largest oil reserves at 156 billion barrels after Venezuela, Saudi Arabia, and Canada. Further, Iran also has the world's second largest gas reserves at 32 trillion cubic meters, after Russia. In contrast, India is the world's third largest importer of oil, with 231.1 million tones imported in 2018. Moreover, India's energy demands are seen to increase in the future, with the country's share of total global energy demand set to roughly double to around 11% by 2040 due to strong population growth and economic development. Further, many of India's refineries are calibrated to process Iranian oil at lower cost, and it is not possible for these refineries to suddenly shift to processing another type. In addition, given the growth of India's energy demands, both countries are eyeing mutual investment in each other's energy industries. Iran intends to invest in India's Nagapattinam Refinery in Southern Tamil Nadu State, noting that there are no US restrictions when it comes to working with India or any other joint project. India has also eyed investing USD 20 billion in Iran's energy sector, particularly in developing the Farzad-B gas field. However, due to difficulties, including Western sanctions and technical disagreements, Iran decided to develop Farzad-B using its own domestic companies.

Iran and India also have intersecting security interests. Although India voted against Iran's nuclear programme in 2009, the two countries maintain close security cooperation. Core issues in Iran's and India's defence and security cooperation are Pakistan, Afghanistan, and Central Asia. Pakistan is India's arch-rival. The two nuclear-armed countries are locked in a long-running conflict in Kashmir. Further, the US has designated Pakistan as a major non-NATO ally due to the latter's huge importance in the Afghanistan conflict. As such, Pakistan has access to extensive military assistance from the US, including material loans, priority status to receive Excess Defense Articles (EDA), training programmes, maintenance and logistics, access to depleted uranium ammunition, and counter-terrorism assistance. Moreover, Pakistan is a major recipient of US military aid, receiving USD 125 million in 2018 to maintain its fleet of US-made F-16 fighter jets. In addition, Pakistan is seeking to acquire more US-made weaponry, such as AH-1Z helicopter gunships, P-8A Poseidon maritime patrol aircraft, special operations equipment, and RIM-116 missile systems. In case of an escalation in Kashmir, Pakistan can use US-made military equipment against India.

In addition, as Iran shares a border with Afghanistan, the latter country has great strategic importance for the former. Iran's interests in Afghanistan include expanding its sphere of influence, entering the Afghan market, containing the flow of refugees and illegal drugs, combating extremism, and managing the implications of the US and NATO's presence near its borders. Iran views Pakistan as exploiting Afghanistan's instability to block an energy and trade corridor that spans Central Asia, Afghanistan, and Iran, which would allow India to gain access to Central Asian energy and markets. Given this situation, both Iran and India can respond to continued US assistance to Pakistan by deepening their strategic ties. Such sends a message to the US that its continued support to Pakistan will have consequences, and one such consequence is stronger India-Iran ties to the detriment of US interests in the Middle East and Indo-Pacific.

Maritime cooperation is also an area of interest between Iran and India. Both countries share borders with the Indian Ocean. India's standing as the dominant regional country in the Indian Ocean region gives it an imperative to control this vast maritime expanse. Also, India's efforts to assert its own dominance in the Indian Ocean is driven by China's String of Pearls strategy. String of Pearls refers to China's network of commercial and military installations spanning the East Coast of Africa to the Chinese mainland. Using this, China can isolate India through a potential military base

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in the Maldives, Gwadar Port in Pakistan, and Hambantota Port in Sri Lanka. Also, Iran views access to the Indian Ocean as a means to escape encirclement by Saudi Arabia, Pakistan, and the US in Afghanistan and Iraq.

Further, Iran views maritime security in the region as critical for its energy exports and trade with Indo-Pacific countries. With these shared maritime interests, Iran and India signed the New Delhi Declaration in 2003 which outlines both countries' desire for regional security, and have conducted joint naval exercises in 2003 and 2006, which focused on sea lane control and maritime security. Also, during the 2018 Indian Ocean Naval Symposium in Tehran, both Iran and India voiced their mutual desire to cooperate in counterterrorism, counterpiracy, and counter-narcotics trafficking. Naval cooperation between Iran and India is expected to grow, due to India's investment in Chabahar Port in Southeast Iran, which also marks the first instance that India has invested in a foreign port.

Iran and India also have substantial infrastructure cooperation, particularly in port and rail infrastructure. India has invested USD 85.21 million and annual revenue expenditure of \$22.95 million toward equipping two berths at Chabahar port and is also constructing a USD 1.6-billion railway line from Chabahar to Zahedan, near the Iran-Afghan border. Chabahar Port is perhaps India's most important investment in Iran, in the sense that it gives the former access to Central Asia via Iran while bypassing Pakistan. Chabahar Port links India via Iran to the larger International North South Transport Corridor, which connects Russia, Armenia, Iran, India, several Central Asian countries, and Europe. It also allows India to counter Gwadar Port in Pakistan which was financed by China. Further, Chabahar Port is also of immense strategic importance to Iran as it is the country's only deep-water port, and allows Iran to bypass the Persian Gulf for its own maritime trade. Iran also views Chabahar Port as its closest and best access point to the Indian Ocean and has devised serious plans to turn it into a transit hub for immediate access to markets in the northern part of the Indian Ocean and Central Asia.

Implications of US Sanctions on Iran for India

Iran-India relations are of great importance to both countries. For Iran, its relationship with India is critical because this relationship allows it to avoid international isolation, avoid containment by its regional adversaries (i.e. US, Israel, Saudi Arabia, and UAE), and earn much-needed revenue from energy exports. For India, Iran is a leading source of its energy imports, is a part of its strategy to deal with Pakistan and China, and a potential gateway to Central Asia. However, US sanctions on Iran have forced India to calibrate its relationship with Iran to avoid damaging its relations with the US and the Gulf States. Hence, India must deal with several complex issues to determine its foreign policy towards Iran. That said, India must pursue a balanced and prudent foreign policy with Iran to maintain its relations with other partners.

As US sanctions force India to downgrade its ties with Iran, this creates a void in Iran's foreign relations that China can potentially fill. China has shown a consistent willingness to work with Iran despite US sanctions, investing USD 280 billion in the latter's oil industry, and is also the largest buyer of Iranian oil, purchasing 6% of its oil needs from Iran. Further, China can fill in the development gaps left by India due to US sanctions. These gaps could potentially contribute to Iran eventually becoming a springboard for further Chinese influence in the Middle East and a potential detriment to India's interests. Iran and China already have a 25-year strategic partnership deal, covering trade, politics, culture, and security. In security terms, the agreement outlines areas of military cooperation between China and Iran, such as training and education, counterterrorism, plus addressing drug trafficking, human trafficking, and development of military technology. The agreement can also potentially facilitate Chinese arms sales to Iran, enable USD 400 billion worth of Chinese investments in Iran and secure a major role for Chinese contractors to develop Iran's railways, ports, 5G networks, and telecommunications. In return, China would get discounted supplies of Iranian oil, products, and gas for the next 25 years.

Further, there is the potential that China can deploy troops or warships to protect its expanding interests in the Middle East. There are provisions in the Iran-China strategic partnership deal that would allow China to deploy up to 5000 troops to protect Chinese workers and experts in Iran. Moreover, China is eyeing to invest in the Iranian port of Jask, which would give it a strategic presence in the Persian Gulf, right where most of the world's oil supply passes, and close to major US military bases in the Middle East. Moreover, in 2019, China, Iran, and Russia conducted naval exercises off the Gulf of Oman, showing China's ability to project naval power and operate in the region.

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Such a situation has significant security risks for India. If China's influence in Iran grows unabated, India might find itself encircled by China, with Jask Port in Iran, Gwadar Port in Pakistan, Hambantota Port in Sri Lanka, and the China-India border in the Himalayas. Also, a strong Chinese presence in Iran can cut off India from access to Central Asia, depriving it of potential energy reserves and markets. In connection with that, China can cut off India's only land access to Afghanistan which runs through Iran. This can potentially thwart India's efforts to prevent Pakistan from turning Afghanistan into a shelter for anti-India extremists and a staging ground for terrorist attacks against India.

To ostensibly counter China's growing presence in Iran, India has expanded its Gulf cooperation policy and signed security and defence agreements with Saudi Arabia, UAE, Oman, and Qatar. Further, despite US sanctions on Iran having huge potential security implications to India, it is unlikely that India will fully cooperate with the US in its confrontation with Iran. Moreover, a Biden presidency in the US can bring significant changes in US foreign policy in the Middle East, Central Asia, and South Asia, with Iran being a critical issue that cuts across all three regions. It is certain that India-Iran ties are here to stay, but China and the US will remain key factors in determining the dynamics of this relationship.

Implications of US Sanctions on Iran for the Indo-Pacific

As Iran is one of India's strategic partners, and India is part of the Quad, no doubt the Indo-Pacific region will feel the long-reaching effects of US sanctions on Iran. US sanctions on Iran can potentially impact India's ability to be a credible and capable member of the Quad. Further, Indo-Pacific countries apart from India that are dependent on Iranian energy exports will also feel the effects of these sanctions.

As US sanctions on Iran can force the latter closer to China, India might be forced to allocate more of its attention, resources, and military capability to secure its Western flank against a potential Chinese naval presence in the Arabian Sea, with Iran as one of its critical bases. Further, India faces significant security implications resulting from China's growing presence in Iran. China's presence in Iran can cut off India's only land access to Afghanistan and Central Asia, preventing India from accessing energy resources and markets in those regions. Moreover, with India cut off from Afghanistan, Pakistan can freely use Afghanistan as sanctuary, training ground, and staging area for terrorist attacks against India. In addition, India faces border disputes with Pakistan and China. These border conflicts can force India to focus on land-based threats instead of maritime security concerns in the Indo-Pacific. Also, the US reserves the option to refuse arms sales to India as part of a comprehensive set of sanctions against countries that deal with Iran and Russia. This situation leaves India in a conundrum as its strategic partners Iran and Russia are both US adversaries. India's dependency on Iran for energy adds another layer of complication to its relationship with the US as India also depends on Russia for much of its arms requirements.

While Russia is India's traditional supplier, problems in Russia's defence industry can force India to find an alternative supplier. Falling oil prices, corruption, Western sanctions, and lack of indigenous capability to produce critical sensitive components have harmed Russia's own defence industry and its ability to supply its buyers. As the largest buyer of Russian arms, India can potentially be affected by these shortcomings in Russia's defence industry. Further, the US has been trying to court India with weapons sales, positioning itself as an alternative to Russia. From 2008 to 2020, the US has sold USD 20 billion worth of weapons to India and has offered to sell advanced weapons such as armed drones and fighter jets. Despite significant US weapons sales over the past years, India has rejected the US offer of armed drones, citing their cost and vulnerability in the heavily contested airspace in Kashmir and the Himalayas.

However, a more likely reason India limits its US arms purchases is that it wants to maintain its strategic independence as a great power. The US defence industry is based on the premise that its buyers join a US-dominated supply chain for better availability, pricing, maintenance, and technical support. But in exchange, buyers surrender large parts of their foreign and security policy to US interests. While US arms sales and offers to India aim to capacitate and improve the latter's interoperability to participate in the Quad, India may be loath to surrender its strategic independence and become a subordinate US ally. It is entirely plausible that India is using its ties with Iran and Russia as potential insurance policies against US moves that goes against its interests, especially in relation to Pakistan.

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It can also be argued that among Quad members, India has the least stake in the Quad, and that this can limit the Quad's growth opportunities and freedom of action. India supports ASEAN centrality in maintaining Indo-Pacific regional order, and has established defence relations with Singapore and Vietnam, and has emerging defence ties with Thailand, Malaysia, Indonesia, and Philippines. Further, India is not dependent on one supplier for its armaments but has multiple suppliers. Apart from the US and Russia, India relies on France, Israel, and the UK for its armaments. In addition, India has a substantial domestic arms industry. That said, India has its own means to project itself into the Indo-Pacific independent of the Quad as it is the only member that does not have a formal alliance with the US. India can organise, train, equip, and maintain its own naval forces independently, unlike Japan and Australia whose navies are configured to operate as part of a larger US-led coalition.

Further, India may have the most to risk in going all-out in its support to the Quad as it is the only member that has a border with China, and the only one that has suffered a Chinese invasion back in 1962. It can be assumed that India reserves the means to push its interests in the Indo-Pacific separate from the Quad framework. As such, the Quad might be in a quandary over its prospects of further institutionalisation and formalisation. While a possible next step for the Quad is to elevate it into a more formal organisation, India, due to its strategic relationship with Iran and Russia, may prefer the organisation to remain loosely-knit and relatively vaguely defined to suit its interests.

Conclusion

US sanctions on Iran have become a challenge in Iran's foreign policy, especially in the latter's strategic partnership with India. Sanctions pose a significant challenge to Iran and India as Iran relies on India to escape international isolation and as a reliable energy market, while India relies on Iran for its energy needs and as a path to Central Asia. US sanctions on Iran can force India to downgrade its ties with the latter, creating a vacuum in Iran that China can fill. However, expanded Chinese influence in Iran brings significant security risks for India. China can potentially cut India's only land access to Afghanistan which goes through Iran. Consequently, this enables Pakistan to use Afghanistan as a base for anti-India terrorists. This can force India to focus on counterterrorism and border disputes with Pakistan and China, which can distract the former's focus from maritime security in the Indo-Pacific.

Further, the relationship between India, Iran, and the US has significant implications for the Quad. As India has strategic partnerships with Iran and Russia, India might limit its participation in the Quad, consequently limiting the Quad's potential to be institutionalised and formalised. Moreover, India may want to preserve its strategic independence from the Quad as it has the most to risk in a conflict with China. It may be in India's interest to keep the Quad as loosely organised as possible, limiting its potential to evolve into a formal alliance. However, the upcoming presidency of US President-Elect Joe Biden may be a game changer. At this time, speculations abound on what will be his foreign policy towards Iran, China, and the Quad. Indeed, the situation between Iran, India, China, US, and the Quad can be likened to a game of chess; it is not possible to move one piece without changing the whole game.

About the author:

Gabriel Honrada is a PhD student at the Peoples' Friendship University of Russia on the Russian government scholarship. His research focuses on international defense and security issues.

Daniyal Ranjbar is an International Relations PhD student at the Peoples' Friendship University of Russia. His research focuses on sanction policy and Middle East geopolitics.