

**Working Paper**

SWP Working Papers are online publications within the purview of the respective Research Division. Unlike SWP Research Papers and SWP Comments, they are not reviewed by the Institute.

MIDDLE EAST AND AFRICA DIVISION | WP NR. 01, APRIL 2020

# Forced to Go East?

**Iran's Foreign Policy Outlook and the Role of Russia, China and India**

*Azadeh Zamirirad (ed.)*

# Contents

|   |           |
|---|-----------|
| <b>Introduction</b>   | <b>3</b>  |
| <i>Azadeh Zamirirad</i>   |           |
| <b>Iran's Energy Industry: Going East?</b>                                    | <b>6</b>  |
| <i>David Ramin Jalilvand</i>  |           |
| <b>Russia: Iran's Ambivalent Partner</b>                                      | <b>13</b> |
| <i>Nikolay Kozhanov</i>   |           |
| <b>Iran and China: Ideational Nexus Across the Geography of the BRI</b>       | <b>18</b> |
| <i>Mohammadbagher Forough</i>   |           |
| <b>Indo-Iranian Relations and the Role of External Actors</b>                 | <b>23</b> |
| <i>P R Kumaraswamy</i>  |           |
| <b>Opportunities and Challenges in Iran-India Relations</b>                   | <b>28</b> |
| <i>Ja'far Haghpanah and Dalileh Rahimi Ashtiani</i>                           |           |
| <b>The European Pillar of Iran's East-West Strategy</b>                       | <b>33</b> |
| <i>Sanam Vakil</i>  |           |
| <b>Implications of Tehran's Look to the East Policy for EU-Iran Relations</b> | <b>38</b> |
| <i>Cornelius Adebahr</i>  |           |

# Introduction

Azadeh Zamirirad

The covid-19 outbreak has revived a foreign policy debate in Iran on how much the country can and should rely on partners like China or Russia. Critics have blamed an overdependence on Beijing for the hesitation of Iranian authorities to halt flights from and to China—a decision many believe to have contributed to the severe spread of the virus in the country. Others point to economic necessities given the drastic sanctions regime that has been imposed on the Islamic Republic by the US administration. In early 2018, when it became clear that Washington would most likely opt out of the nuclear deal, Supreme Leader Ali Khamenei declared the “East” a foreign policy priority. It was not the first time Tehran had pondered an eastward orientation. Since its founding, the Islamic Republic has often relied on its eastern neighbourhood in political, economic and military affairs.

In Iranian political discourse, the East has not been conceptualized solely in geographical terms but rather in vastly different ways, at times referred to as an ideological bloc or seen as an anti-hegemonic movement. Overall, the East has been regarded as a space distinctly separate from the “West” and even anti-Western on occasion. Today, Iran's eastern policy primarily focuses on nation states and almost exclusively on Asia, most notably on Russia, China and India. At first glance, an explicit orientation towards the East seems to contradict Iran's revolutionary doctrine of “Neither East nor West, but the Islamic Republic”. Throughout the Cold War, Iran stressed its independence by rejecting eastern and western “hegemonic superpowers” alike, declaring itself non-aligned—principles that were incorporated into the constitution itself. This explicit rejection of both East and West has repeatedly raised the question in Iran of whether an outspoken orientation towards the East is even compatible with long held beliefs as laid out in the constitution. However, even in the early years of the Islamic Republic, Tehran maintained ties with members of the Cold War blocs and did not cease all diplomatic, political or military relations. More importantly, as supporters of an eastward turn argue, the notion of East and West in those years was one of competing ideologies within a bipolar world order—an order that no longer exists.

It was not until the presidency of Mahmoud Ahmadinejad (2005-2013), however, before Iran formulated an explicit “Look to the East” policy. Tehran's foreign policy reorientation took place against the backdrop of the nuclear crisis and had three main goals: firstly, looking East was meant to refute the suggestion that Iran was internationally isolated with regard to its nuclear programme. To this end, Iran regularly used the Non-Aligned Movement as a frame of reference, which represented the majority of the world population and almost two thirds of the UN General Assembly. Secondly, expanding trade relations—particularly with partners in Asia—was meant to reduce the economic pressure of the nuclear sanctions regime. Thirdly, Tehran hoped to gain political support from two permanent members of

Dr Azadeh Zamirirad is Deputy Head of the Middle East and Africa Division at SWP in Berlin.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

the UN Security Council, namely Russia and China. The policy did not yield the results Tehran was hoping for. Not once did Russia or China make use of their veto power in the Security Council to prevent nuclear-related sanctions against Iran and the Islamic Republic did not get any closer to solving the nuclear crisis.

Unlike his predecessor, president Hassan Rohani followed a two-pronged approach. The Rohani government tried to maintain and ideally expand its existing cooperation with eastern partners while also striving to improve its relations with western actors, including the United States and Europe. Rohani's attempts at a policy of *détente* towards the West came to a halt, however, when Washington declared in May 2018 that it would no longer adhere to the nuclear deal of 2015 and would instead follow a policy of "maximum pressure" vis-à-vis Iran. US policy has given rise to a reprioritisation of Iran's eastern neighborhood. What used to be *one* foreign policy choice among many during the Ahmadinejad era seems to have turned into a strategic necessity, forcing Tehran to go East. However, an Iranian orientation towards its eastern neighborhood has turned out to be challenging and has already entailed high economic and political costs. So far, Iran's relationships with countries like Russia, China and India have been mostly transactional with little prospects of turning into strategic political alliances anytime soon. Given the limits of cooperation, how much can Tehran rely on these actors to navigate through the sanctions regime and how do Moscow, Beijing and New-Delhi view their relations with the Islamic Republic? The present SWP Working Paper brings together international experts from Europe and Asia to discuss Iran's look to the East from different perspectives and to assess its implications for European policy.<sup>1</sup>

**David Ramin Jalilvand** focuses on the significance of the energy sector for Iran's orientation towards the Asia-Pacific region. Turning to the East is a "natural" move for a major oil and natural gas producing country like Iran, as Jalilvand argues, given that "Asia will host the energy markets of the future". Sanctions are also pushing Iran to the East, but rather than accelerating deepening ties with Eastern nations, they are in fact obstructing "Tehran's embrace of the East".

**Nikolay Kozhanov** takes a look at the ambivalent role of Russia. Moscow is both benefiting from increased pressure on Iran and concerned about its consequences. Kozhanov argues that while Moscow has almost no leverage to affect US policy directly, it can draw on its experiences of supporting Venezuela and use a whole set of "grey" measures to help Iran withstand sanctions pressure. Moscow's goal is to use current conditions to increase its limited economic presence in Iran while keeping Tehran from fully giving in to "American demands".

China has emerged as a pivotal actor in Iran's approach towards the East. **Mohammadbagher Forough** examines Sino-Iranian relations by looking at their "ideational foundations". Tehran has fully embraced the Chinese vision of the Belt and Road Initiative and Iran's role in it, which coincides with Iranian self-perceptions; after all, the Islamic Republic views its centrality in regional geopolitics as "undeniable". Despite existing challenges to Sino-Iranian relations, Tehran welcomes China's rise as an important "shift in global geopolitics and geoeconomics".

<sup>1</sup> This Working Paper was mainly compiled prior to the covid-19 outbreak in Iran and the collapse of the oil price. We would like to thank the authors for their contributions and Andrew Omond for the essential research and editorial assistance he provided throughout the publication process.

Indian-Iranian relations have been largely affected by a number of external actors. **P R Kumaraswamy** draws attention to the significant role of Israel, Saudi Arabia and the United States in New Delhi's political calculations vis-à-vis Iran. As India expands its ties with these actors, its relations with Iran display clear limitations. The US administration's Iran policy in particular has shown how India lacks the "ability to pursue policies independent of Washington's whims and fancies".

**Ja'far Haghpanah** and **Dalileh Rahimi Ashtiani** assess Indo-Iranian relations from Tehran's perspective. Within the Iranian foreign policy discourse, India presents a rare case of consensus across factional lines. While energy relations have markedly suffered under US sanctions pressure, Iran sees potential for cooperation in a number of other areas, most notably in the transit sector. Thus, despite current international limitations, Iran will continue its orientation towards the East.

At the same time, Iran's look to the East policy does not mean turning its back on Europe. **Sanam Vakil** argues that Tehran is by no means solely focusing on its eastern relations; ties with Europe are "equally pivotal". Vakil explores the historical drivers and divisions between Europe and Iran, reaching the conclusion that despite political frustrations, Europe still provides a "strategically important pillar" in Iran's "sanctions survival strategy"—including both East and West.

Iran's look to the East policy and its relations with the EU are not mutually exclusive. As **Cornelius Adebahr** writes, the European approach is "complementary". The EU may not currently provide the same economic prospects as Asian markets, but "no other partner" can "match Europe's full-range cooperation offer", including collaboration on environmental issues and the promotion of academic and cultural exchanges. In the long term, however, decreasing the EU's "vulnerability to US sanctions" becomes essential if it wants to be recognised as a "sovereign" actor—by Iran and the international community.

# Iran's Energy Industry: Going East?

David Ramin Jalilvand

Dr David Ramin Jalilvand is the managing director of the Berlin-based Middle East consultancy Orient Matters.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

Increasingly, the notion of an eastern alternative for Iran's energy trade and investments is being entertained. Amid Tehran's troubled relations with the West, both in Iran and abroad the argument can be heard that Tehran might find it easier to engage with Asia's emerging powerhouses. Countries like China or India are believed to be more open to cooperate with Iran, politically as well as economically. In contrast, European businesses show great sensitivity to US sanctions and the EU presses political demands on a series of issues.<sup>1</sup> Therefore, very much in the context of the general debate about the country's foreign alignments, the question emerges whether or not Iran is 'going East' when it comes to its foreign energy relations. Against this backdrop, two arguments are presented in the following article. First, as a major oil and natural gas producing country, it is natural for Iran to 'go East'. Commercially, Asia offers the biggest opportunities as energy demand in this part of the world is projected to grow faster than anywhere else. Second, Iran's embrace of the East is complicated by the US sanctions regime. Like their European counterparts, Tehran's economic partners in Asia show great sensitivity to sanctions. Meanwhile, they are benefiting from the weak Iranian position by stipulating tough commercial terms. All in all, rather than accelerating the deepening of ties, sanctions are in fact disadvantaging Tehran's embrace of the East—especially in comparison to its regional competitors.

## The commercial rationale for going East

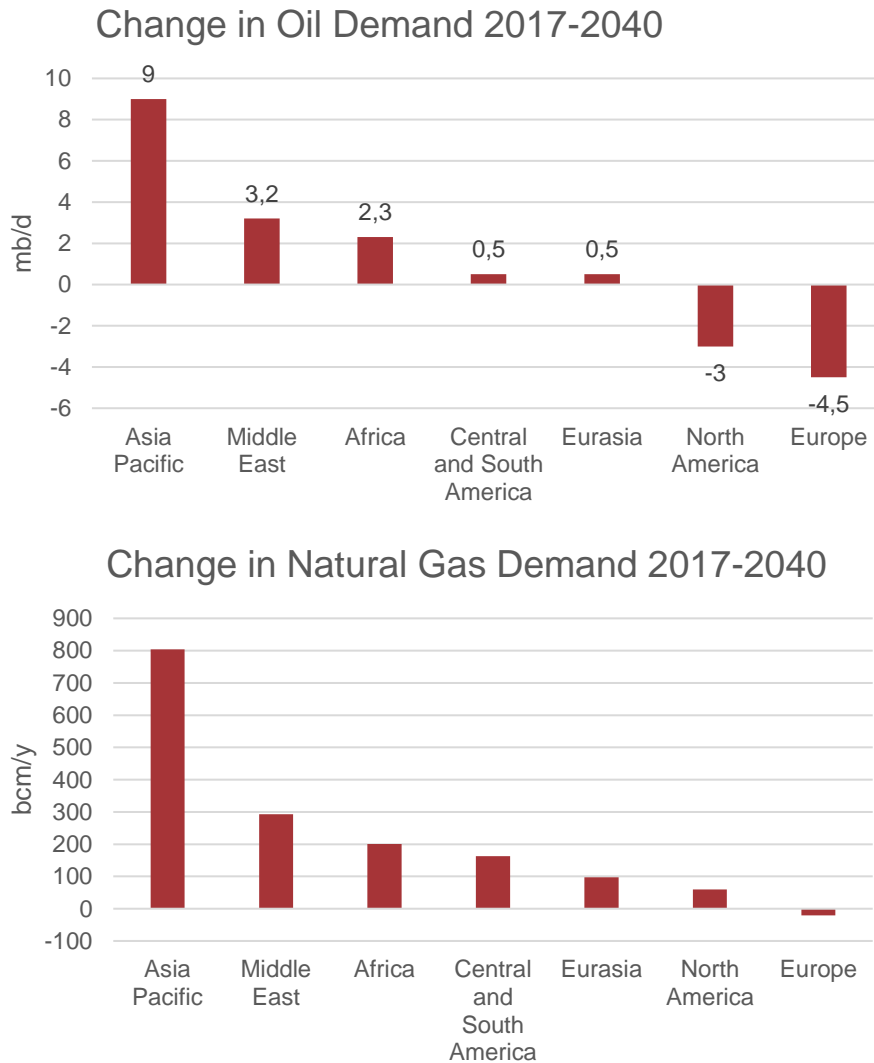
In the upcoming years, the Asia-Pacific region is expected to see the highest growth rates for energy demand. Both in oil and natural gas, consumption increases are poised to exceed those in other parts of the world by far (see Figure 1). Between 2017 and 2040, oil demand is assumed to grow by 9 million barrels per day (mb/d) or 29.5% to reach 39.5 mb/d. This marks substantial growth not only in absolute terms, but in relative terms too. For oil producing countries, growth in Asia is even more important as consumption is expected to decline in what were the historical centres of oil demand: North America and Europe. In the case of natural gas, demand is forecasted to more than double over the same period, rising by 804 billion cubic metres per year (bcm/y) to 1,579 bcm/y.<sup>2</sup> Again, Asian growth is higher than anywhere else in the world. The importance of Asian gas markets is compounded

<sup>1</sup> E.g. Iran's regional policy, the missile programme, human rights, etc.

<sup>2</sup> IEA, *World Energy Outlook 2018*, Paris 2018, p. 522.

by the global diffusion of gas trade by ship (using liquefied natural gas, LNG).<sup>3</sup> Moreover, in the Middle East, the region with the world's second highest gas demand growth, political rivalries undercut intra-regional gas trade.<sup>4</sup> As a consequence, Asia gains further importance for (export-oriented) Middle Eastern gas-producing countries.

Figure 1: Change in Oil and Natural Gas Demand 2017-2040 (IEA 2018)



Consumption increases in Asia are unfolding against the backdrop of growing competition among energy producers. Competition is on the rise in both oil and natural gas as well as between fossil and non-fossil fuels. Traditional (i.e. conventional) oil

<sup>3</sup> Over the past decade, since 2007, worldwide LNG trade saw robust growth and global gas regasification capacity has more than doubled. By 2017, LNG accounted for more than a third of global gas trade. The Asia-Pacific region accounted for more than half of global LNG trade. See: BP, *BP Statistical Review of World Energy*, London 2018, p. 34; IGU, *2018 World LNG Report*, Barcelona 2018, p. 11.

<sup>4</sup> For political reasons, gas-short Middle Eastern countries do not want to rely on imports from the region's two gas-rich countries, Iran and Qatar. See: Jonathan Stern, *The Future of Gas in the Gulf: Continuity and Change*, Oxford 2019.

and natural gas producers are being challenged by growing supply from developers of so-called unconventional North American reserves.<sup>5</sup> These proved resilient even in the face of falling oil prices between 2014 and 2016. Among the fossil fuels, a shift can be observed from oil to natural gas (which is increasingly preferred around the world for both economic and environmental reasons). Moreover, there is growing cross-sector competition. In the power sector, fossil fuels are increasingly challenged by renewable energy carriers (solar, wind), which see falling cost-curves.<sup>6</sup>

These developments have resulted in the emergence of a prospect of what is described as 'peak demand': At some point between 2025 and 2040, global demand for oil is expected to flatten before eventually declining.<sup>7</sup> All this confronts oil producers (and to a lesser degree gas producers) with substantial pressure to secure demand in the future. Notwithstanding potential shortages and price spikes in the short-term, a broader transformation is underway. As the centre of global energy consumption is shifting from the Atlantic towards the Asia-Pacific region while competition between fossil fuel producers is rising, it is economically rational for Iran to orient itself towards the East. On the demand side, the centre of gravity of the global energy system will shift to this part of the world as European and North American markets are either in decline (oil) or are more or less stagnating (natural gas). Thus, market realities are the prime factor for Iran, as for any other oil- and (aspiring) natural gas-exporting country, to orient itself towards the Asia-Pacific region.<sup>8</sup> Political factors, i.e. sanctions, may constitute a further stimulus for Iran to 'go East'. At the core of any embrace of East Asia, however, are economic reasons.

### **Asian companies in Iran's energy sector**

Iran's energy sector requires foreign technology and tremendous investments to maintain output at the country's many mature oil fields, as well as to accelerate efforts to bring new oil and natural gas fields into production. Officials in Tehran suggested the industry requires investments totaling as much as \$200 billion,<sup>9</sup> a sum almost half the size of Iran's nominal GDP. In realising foreign investments in the Iranian energy sector, the Rouhani administration has sought to diversify its engagement with foreign companies to protect against the adverse effects of sanctions. In particular, Iran is mindful of the sensitivity that European IOCs<sup>10</sup> are showing to sanctions. Following the conclusion of the Joint Comprehensive Plan of Action (JCPOA) in 2015 and the introduction of a new contractual framework for the energy industry (the Iran Petroleum Contract, IPC), Tehran has sought to realise its strategy of engagement diversification. More than half of the international companies that were admitted to apply for contracts under the IPC were from East/South

<sup>5</sup> 'Unconventional' describes oil and natural gas deposits that are exploited by a combination of hydraulic fracturing (fracking) and horizontal drilling technologies, i.e. not by conventional drilling methods.

<sup>6</sup> IRENA, *Renewable Power Generation Costs in 2017*, Abu Dhabi 2018, p. 34.

<sup>7</sup> IEA, *World Energy Outlook 2018*, Paris 2018.

<sup>8</sup> Current levels of natural gas exports are way below the ambitions of Iranian officials.

<sup>9</sup> *Zangeneh Stresses Need for Foreign Investment*, Shana, 14 June 2016 (accessed 7 September 2019).

<sup>10</sup> IOCs = international oil/energy companies.



Asia and Russia.<sup>11</sup> Iran's efforts to acquire a diversified portfolio of foreign investors, however, have been hampered by the fact that throughout the 2010s, sanctions have effectively prevented any engagement of European IOCs in the country. In 2010, the joint EU-US sanctions effort forced all European IOCs out of Iran. Following the agreement of the 2015 JCPOA, numerous companies from Europe showed interest in the Iranian energy sector. But IOCs were (rightfully) concerned about the viability of the JCPOA and the lifting of sanctions. Only one European IOC, French corporation Total, signed a contract in Iran (in 2017). After the US exit from the JCPOA, Total was forced to quit its engagement in Iran in August 2018.

In the absence of a European alternative, all hopes for an inter-regional diversification approach are gone. Practically, Iran is left with companies from Asia as the only choice to secure at least some (very small) investments. Tehran's situation is worsened by the fact that uncertainty about future oil demand has resulted in more capital discipline and less investment in the energy industry.<sup>12</sup> Coupled with growing opportunities elsewhere (e.g. on the Arabian Peninsula, in North American unconventional energy, or other/renewable energy carriers), the attractiveness of Iran's energy reserves declines. In other words: the current global energy landscape offers an abundance of opportunities for investors which render the politically highly risky (and also commercially problematic) Iranian reserves increasingly unattractive.

Asian companies have exploited this situation to Iran's disadvantage. Rather than moving into Iran's energy sector with full speed so as to fill the void left behind by the departure of European companies, they instead proceeded only after meticulous calculations. Asian companies (and banks) are showing great sensitivity to US sanctions, similar to their European peers. Commercially, they have moved to exploit Iran's lack of alternatives by stipulating tougher terms, demanding higher prices and delivering weak corporate results. On the Iranian end, this has led to frequent complaints about the poor performance of—especially, but not exclusively—Chinese companies. In 2012, the China National Petroleum Corporation (CNPC) de facto stopped operations at the South Pars natural gas field amid Iranian threats to cancel the company's contract. In 2013, the then-new Rouhani administration replaced CNPC formally with a local company, Petropars. A year later, Iran terminated CNPC's contract at the Azadegan oil field. Today, it appears the situation will develop along the same lines. The quarrels surrounding CNPC's takeover of Total's share at South Pars and the maneuvering of CNPC-owned Bank of Kunlun, both in 2018, are indicative of these difficulties. In September, reports emerged about the conclusion of a Chinese-Iranian road map for the 2016 'comprehensive strategic partnership' agreement between the countries. According to Iranian sources, China has committed to invest a staggering \$280 billion into the Iranian energy sector (next to investments of \$120 billion into other sectors). In return, Tehran is offering Beijing steep discounts (amounting to some 30% in total), longer payment

<sup>11</sup> David Jalilvand, *Iranian Energy: A Comeback with Hurdles*, Oxford 2017, p.7.

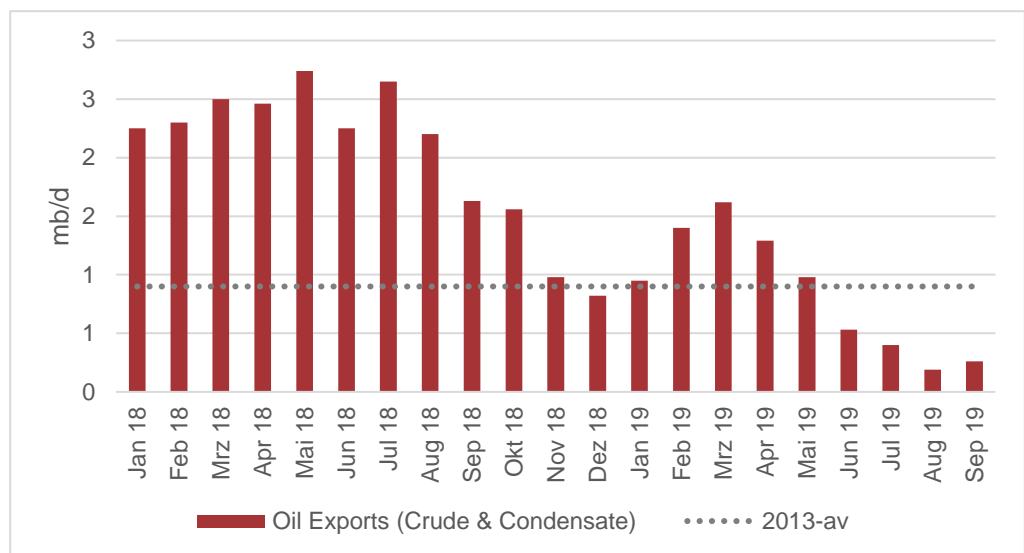
<sup>12</sup> 2017 was the third consecutive year of declining investments in global energy. See: IEA, *World Energy Investment 2018*, Paris 2018, p. 21.

periods and a right of first refusal for new energy projects in Iran.<sup>13</sup> However, in light of the history of Chinese investment pledges and contracts in Iran that did not meaningfully materialise, it remains to be seen how much of the promised investments will actually be realised—especially as China’s government has not yet publicly confirmed the agreement (as of the writing of this article).

### Harder to reach: Iran’s access to Asian markets

Similar to the situation in the country’s energy sector, Iran’s access to Asian markets is also hampered dramatically by sanctions. Tehran’s oil exports to the Asia-Pacific region have proven highly sensitive to sanctions. Moreover, unlike its regional competitors like Saudi Arabia or the UAE, Iran is also unable to make acquisitions in Asian downstream markets due to sanctions (as well as the sanctions-related lack of funds for investments). In Tehran, there was hope that China, India and Turkey would maintain their imports of Iranian oil regardless of sanctions. This was reinforced by strong political statements by officials in Ankara, Beijing and New Delhi, which rejected the unilateral US sanctions and vowed not to follow them.<sup>14</sup> On the ground, though, a discrepancy emerged between political intentions and commercial realities; similarly to the situation in Europe, economic actors in Asia took the risks associated with the US sanctions regime very seriously. In autumn 2018, ahead of the 5 November reimposition of US oil sanctions, buyers of Iranian oil began to divest from the country. By the beginning of November, Iran’s oil exports had declined to 1.0 million barrels per day (mb/d), effectively in the range of the pre-JCPOA sanctions era.

Figure 2: Iran’s total crude oil and condensate exports (IEA 2019)



<sup>13</sup> Simon Watkins, *China and Iran Flesh Out Strategic Partnership*, *Petroleum Economist*, 3 September 2019 (accessed 7 September 2019).

<sup>14</sup> David Jalilvand, *The US Exit from the JCPOA: What Consequences for Iranian Energy?*, Oxford 2018, p.4.

Unexpectedly at the time, the US granted eight importers of Iranian oil (China, Greece, India, Italy, Japan, South Korea, Taiwan and Turkey) waivers to maintain exports at reduced levels, leading to a partial recovery of Iran's oil exports. However, after the US revoked all waivers at the beginning of May 2019, Iran's exports again declined dramatically. As of May, India and Turkey have stopped importing Iranian oil entirely. China is the only country that continues to import larger amounts of oil from Iran, albeit at substantially lower volumes (see Figure 2). Looking ahead, independent Chinese refiners (without US exposure) might indeed be Tehran's best hope. At any rate, though, the volume of oil imports from Iran will be substantially lower compared to the situation before the reimposition of US sanctions.

Moreover, as part of their engagement in the Iranian energy sector, Asian companies are seeking to exploit Iran's weak bargaining position. In addition to claiming discounts, they are forcing Iran into accepting various forms of payments in local currencies, barter trades, extended payment periods, etc. Thus, even in the instances where oil exports continue, sanctions are having a negative effect on Iran's relations with Asian countries. Beyond trade, sanctions are also having negative consequences for Iran's position in Asian energy markets in the mid- to long-run. Amid the growing competition on the supply-side and the consolidation of the Asia-Pacific region as the centre of global energy demand (see above), Middle Eastern energy producing countries have begun to make inroads into Asian downstream markets. Over the past few years, for example, Saudi Arabia and the UAE have made acquisitions in several East and Southeast Asian countries (e.g. China, India, Indonesia and Malaysia).<sup>15</sup> The objective here is to consolidate the countries' positions in these markets and to thereby ensure future demand. In this context, lacking funds and facing risk-averse business actors, sanctions are playing an important role in preventing Iran from joining the race—likely disadvantaging Iran in the future.

## Conclusion

Economic opportunities are bringing Iran and the countries of the East together and not only in the realm of energy. Asia will host the energy markets of the future, alongside remarkable economic growth perspectives. Insofar, Iran looking eastwards is nothing extraordinary. In fact, the entire world is witnessing what has been described as 'Easternization' and the 'defining trend of our age'.<sup>16</sup> What is important when it comes to Iranian energy, and perhaps beyond, is that sanctions are very much complicating Iran's embrace of Asian countries. Indeed, Tehran might be 'forced to go East' as most of the few remaining companies and banks willing *and* able to maintain ties with Iran are located in this part of the world. But, at least in the realm of energy, connecting to the East has in fact not become less but more complicated due to US sanctions. The global character of the energy industry and

<sup>15</sup> Henning Gloystein, *Saudi King's Asia Tour Trumpets Aramco's Moves Downstream*, Reuters, 20 March 2017 (accessed 7 September 2019).

<sup>16</sup> Gideon Rachman, *Easternisation: War and Peace in the Asian Century*, London 2016.

its close bonds with the US-dollar-dominated global financial system are ensuring that economic actors remain highly sensitive to US sanctions—a situation worsened by the fact that alternatives to Iranian supplies and resources are growing around the world, especially in the mid- to long-term. Thus, ‘neither East, nor West’, one of the Islamic Republic’s guiding principles, is very much gaining practical relevance for Iranian energy—though perhaps not in ways envisaged by decision-makers and hoped for by the people of Iran.

# Russia: Iran's Ambivalent Partner

Nikolay Kozhanov

Over the last three years, occasional upticks in Russian-US dialogue have revived old speculations that Moscow might seek to use Iran as a bargaining chip in its relations with US president Donald Trump. Moscow could potentially withdraw its political support to Tehran in exchange for the easing of the American sanctions imposed on Russia following its annexation of the Crimea and other provocative activities in eastern Ukraine. Other experts have suggested that Moscow could facilitate a reduction of the Iranian presence in Syria in exchange for Western recognition of Bashar Assad as the country's only legitimate ruler. Both suggestions should be taken with a grain of salt.

## Bargaining chip

The visit of US Secretary of State Mike Pompeo to Russia on 15 May 2019 was warmly welcomed by the Kremlin. Special Prosecutor Robert Mueller's report in March 2019 had, in the eyes of the Kremlin, vindicated allegations of collusion between Donald Trump and Russia during the 2016 US presidential election campaign. Consequently, the Russian authorities expected that a new window of opportunity in Russian-US relations would be opened which might enable the re-establishment of direct communication channels. And to a certain extent, Pompeo's visit did produce some positive outcomes for bilateral dialogue. First of all, the fact that Pompeo felt able to visit Russia at all indicated that Trump and his team did not consider contact with Vladimir Putin's Russia to be entirely 'toxic'. Secondly, both sides benefited from the opportunity to exchange their views in person and to identify avenues for further dialogue, even if no concrete agreements were reached. In the end, Pompeo's visit was less about solving a particular problem in the US-Russian relationship, but rather about restoring contact between Moscow and Washington. To this aim, it succeeded. As stated by Putin's aide on foreign policy Yuri Ushakov, if the two sides were able to adopt a 'businesslike approach' after Pompeo's meetings with Putin and Russian foreign minister Sergei Lavrov, further contact between Russians and Americans could incline the parties to adopt stances that were more hospitable to compromise in the future.

However, bargaining chips are essential components of compromises. In the minds of Russian foreign policy officials, Iran, while undoubtedly significant for Russia's wider strategic aims, is not considered to be of paramount importance. The US might therefore expect the Kremlin to treat Iran as one such bargaining chip.

Dr Nikolay Kozhanov is a Research Associate Professor at the Gulf Studies Center of Qatar University in Doha.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
[www.swp-berlin.org](http://www.swp-berlin.org)  
[swp@swp-berlin.org](mailto:swp@swp-berlin.org)

doi: 10.18449/2020WP03

These expectations are not completely baseless. For example, the very next day after his meeting with Pompeo, Putin said that Iran should not rely on Russia in its confrontation with the US over the JCPOA. Bloomberg later reported that Russia had refused to provide Iran with its S-400 air defence missile systems, even though the request for the equipment allegedly came right from the very top of Iran's political pyramid.<sup>1</sup> The prospect of a thaw in Russian-American relations would entice the Kremlin to shelve any serious deals with Iran, especially those related to military technology. Such moves are a familiar phenomenon in the recent history of Russian-Iranian relations. In the short-run, Moscow might even be positioned to benefit from increased pressure on Iran, whose preoccupation with the threat from the US-Saudi-Israeli axis could allow it to make further unhindered gains in Syria. Although the two are allied in their support for Damascus, Moscow has recently moved to curb Tehran's influence in certain strategic areas and solidify its own positions in the country. Yet this does not mean that Russia would back the US strategy of 'maximum pressure' or any attempts to bring about regime change in Iran.

### **Potential gains versus losses**

Russia's leadership is not prepared to burn all its bridges with Iran. In addition to cooperation in Syria, Moscow and Tehran collaborate on a wide variety of other regional issues, such as energy and security in the Caspian region and Central Asia. Moscow has also not forgotten how the civil war in Tajikistan in the mid-1990s was stopped only with effective cooperation with Iran. Similarly, Tehran's stance during the Russian war with Georgia in 2008 was construed by the Kremlin as de facto pro-Russian. Finally, in 2018, the adoption of a Moscow-backed framework agreement on the legal status of the Caspian Sea would have been considerably more difficult without Iranian consent. In exchange for its diplomatic support, Iran aimed to secure further assistance from the Kremlin in its struggle against American pressure—although of the five littoral countries that signed the agreement, Iran's interests were ranked as the lowest priority.<sup>2</sup> Previously, the Kremlin had tried to trade its pro-Iranian stance for better relations with the West, as on two occasions in the 1990s and 2000s. But nothing good came of these attempts.

In June 1995, US Vice President Al Gore signed a secret agreement with Russian Prime Minister Viktor S Chernomyrdin calling for an end to all Russian sales of conventional weapons to Iran by the end of 1999. In exchange, the Kremlin anticipated closer economic cooperation with the US. These expectations never materialised, and in fact, the Gore-Chernomyrdin agreement ended up costing Russia \$4 billion in lost profits from trade and investment cooperation with Iran. In 2009, the administrations of Dmitry Medvedev and Barack Obama agreed to 'reset' Russian-US relations in an initiative that obliged the former to scale back its partnership with Iran. Thus, in 2010, Russia decided not to supply Tehran with S-300 missile systems

<sup>1</sup> Zainab Fattah and Ilya Arkhipov, *Russia Rejected Iran S-400 Missile Request Amid Gulf Tension*, Bloomberg, 30 May 2019 (accessed 16 September 2019).

<sup>2</sup> *Convention on the Legal Status of the Caspian Sea*, Fifth Caspian Summit, 12 August 2018 (accessed 16 September 2019).

despite previous promises to the Iranian leadership. The incident caused serious damage to Russian-Iranian relations and led to much distrust and suspicion in Tehran.<sup>3</sup> Fast forward to 2020, and it is unclear what the US is now able to offer Russia. Occasional high-level meetings between Russian and American officials do not constitute proof that Russia's image has been normalised or rehabilitated on the American political scene—far from it. Improved relations with Russia would mandate a reconsideration of multiple US policies on a number of key issues, including Crimea's annexation, Russia's supported war in eastern Ukraine and its interference in the domestic affairs of other European countries.

## **Russia and Iran in Syria**

It is unlikely that Russia will exert pressure on Iran to withdraw its forces from Syria in exchange for Western recognition of Assad. Russia and Iran were compelled to form an uneasy alliance in Syria, where neither side fully trusts the other. In the post-conflict period, Tehran will become a serious challenge to Russian interests in Syria.<sup>4</sup> Moscow will want to avoid a situation in which Tehran is able to control or dominate Syria's political scene or use its territory as a staging ground for aggressive activities against Israel. Yet Russia's ability to confine Iran's presence in Syria is limited. On the one hand, Moscow still needs Tehran's proxies on the ground for as long as the war continues, even as it tries to squeeze them out of certain areas. On the other hand, Russia has few effective tools to force Iran, its proxies and/or 'pro-Iran forces' to leave Syria. Russia could theoretically advocate for the withdrawal of groups such as Hashd al Shaabi, Afghan and Pakistani fighters and Hezbollah in exchange for concessions to Iran in Syria or elsewhere. Yet there are other local forces supported by Iran such as the National Defence Forces or Local Defence Forces by Syrians, for which Tehran is unlikely to end its support.

This support is not always direct, nor is it always clearly visible. Iran provides indirect and covert assistance via local businesses and communities and masks its military presence under the guise of civil activities. This obfuscation makes it difficult to fully track Iran's actions or presence in Syria. The Russians are not spared from this difficulty, but Moscow recognises and accepts that any attempts to control all Iranian activity in Syria would prove futile. Furthermore, there are doubts about Moscow's willingness to cooperate with the US and Israel to decrease Iran's footprint in Syria. The Russian-Iranian relationship encompasses a broad range of issues and Moscow cannot afford to join the anti-Iranian camp (or fuel speculation in Iran that it has done so). In the end, Moscow will want to continue to engage with the US and Israel on Iran in Syria in order to maintain its standing as an important international player. Yet in practical terms, Russia's role as an intermediary between Tehran and the US and Israel will be limited. Moscow will keep a close eye on Israeli actions against Iranian interests in Syria while persisting in its refusal to

<sup>3</sup> Nikolay Kozhanov, *Understanding the Revitalization of Russian-Iranian Relations*, Carnegie Moscow Center, Moscow 2015.

<sup>4</sup> Anton Mardasov, *Are Russia, Iran Engaged in Tug of War over Syria?*, Al Monitor, 30 January 2019 (accessed 16 September 2019).

supply S-400s to Tehran. In other words, Russia will continue to steer more or less the same course.

### **Prospects for Russian-Iranian dialogue amid US sanctions**

Moscow is still interested in establishing itself in the Iranian oil and gas market, but Trump's decision to withdraw from the JCPOA has made this goal harder to attain. By June 2019, the major Russian oil and gas companies had effectively ceased their efforts to enter the Iranian market. In addition, Moscow has almost no leverage with which to adjust US sanctions behaviour. This has been recognised officially: in early May 2018, Lavrov accepted that Russia was powerless to do anything about the new sanctions imposed by Trump. The Kremlin is not ready to fight seriously for Iran—at least not without European support. Nonetheless, this does not signify a breakdown of cooperation between Iran and Russia. This cooperation is, however, mostly limited to the construction of the Bushehr Power Plant, the construction of Sirik power plant (started in 2017) and projects involving the Russian Railways Company (RZD). Moscow might attempt to return to the situation of 2012–2015, when the lion's share of Iranian-Russian business activity was conducted by small and medium enterprises in so-called grey areas. Iran was the only external market for some of these Russian businesses. Meanwhile, Russia is trying to generate legal means to circumvent US sanctions. Financial sanctions remain the main obstacle for the development of bilateral economic relations. To cope with these, Moscow is considering its options to join INSTEX, but these would depend on EU approval. Russia is also working on the creation of a cross-border electronic payment system that would allow financial transfers to be wired directly between Iran and Russia. Moscow and Tehran are actively discussing options to develop new transport routes which would allow them to trade goods—including oil and petrochemical products—without having to rely on routes controlled by countries potentially hostile to Iran. Under these circumstances, the so-called North-South corridor project, which entails the establishment of rail connections between Iran and Russia via the Caucasus and Central Asia, gained new importance. To a certain extent, Moscow and Tehran are returning to their experiences from the late 1980s, when the re-establishment of rail and road connections between Iran and the USSR gave the Islamic Republic a chance to reduce its international isolation and import essential goods via Soviet territories. Amid continued US pressure, Russian-Iranian trade stood at the same level in 2018 as it did in 2017 (\$1.7 billion). In 2019, it only went down slightly, reaching \$1.6 billion. Yet this decline was due to the poor performance of an Iranian economy that had been heavily hit by US sanctions, rather than the unwillingness of the Russian business community. According to customs data, in 2019, the volume of Russian exports to Iran remained unchanged whereas imports from Iran fell by 27 per cent. In contrast, Russian-Iranian trade experienced serious downfalls between 2010 and 2016, when conditions for the development of bilateral economic relations were actually much more favourable (at least



in 2015-2016).<sup>5</sup> Finally, Russia can offer Iran more active support in evading US sanctions via 'grey' measures. By now, it has learnt a lot from its experiences of helping Venezuela to stand against US pressure. Moscow and Caracas have established a direct banking connection across which they conduct trade denominated in Russian roubles. Russia also plans to trade Venezuelan crude oil, which Caracas will offer at a discount price and/or as a payment for Russian goods. This oil is not destined for Russia itself, Russian companies will sell it on to China, India or to other buyers. In early 2019, similar schemes were offered to the Iranians. In exchange for its help, Moscow demanded an increased presence in Iran's oil and gas sector. However, the Iranian side declined Russian help as it believed the EU would protect it from US pressure. In other words, Iran revealed that it considered Russia's proposal only as a last resort—a stance that offended the Kremlin. Yet Moscow might once again offer its help to Iran—albeit at the same high price.

## Conclusion

The future of Russian-Iranian relations will be determined by the outcomes of the US-Iranian stand-off. Moscow is not going to pressure Tehran for better relations with the US, but it can play the role of mediator between them. If, however, the crisis continues and if Iran displays a willingness to offer Russia greater access to its economy, Moscow could begin to gradually increase its support to Iran via participation in sanctions-evading grey schemes, in addition to providing limited diplomatic support. Moscow wants to use the opportunity to increase its economic presence in Iran, as evidenced by the attempts of Russian oil and gas companies to access Iranian hydrocarbons in ways which will not conflict with US sanctions.<sup>6</sup> Currently, these companies do not have any serious oil and gas projects in Iran. Thus, in June 2019, a number of unnamed Russian enterprises confirmed their readiness to provide exploration services to Iran to help develop off-shore areas in the Caspian Sea.<sup>7</sup> Russia is still reluctant to see Iranian natural gas going to Europe, and has instead sought to re-channel it to East Asia, for example through its periodic attempts to help Iran resurrect the Iran-Pakistan-India pipeline project. Moreover, during the June 2019 meeting of the Russian-Iranian Joint Trade and Economic Commission, the Russian delegation officially confirmed that Gazprom was still considering its options to develop Iran's liquefied natural gas infrastructure. And finally, Russia wants to bolster the ability of the Iranian state to resist the US, thereby averting a situation where Iran feels completely 'cornered' by US sanctions and thus has no choice but to fully capitulate to American demands.

<sup>5</sup> For more details see Russian official trade statistics, *Trade between Russia and Iran in 2018*, 9 February 2019 (accessed 16 September 2019).

<sup>6</sup> Sergery Kulakov, *Iran pod Sanktsiyami i na Pritcele SSha*, Eurasia Daily, 14 June 2019 (accessed 16 September 2019).

<sup>7</sup> *Iranskiy Shelf Kaspiya Budut Razrabatyvat Kompanii RF?*, Teknoblog, 19 June 2019 (accessed 16 September 2019).

# Iran and China: Ideational Nexus Across the Geography of the BRI

Mohammadbagher Forough

Dr Mohammadbagher Forough is a lecturer of International Relations of Modern Iran at Leiden University.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

The world is undergoing tectonic shifts; the global centre of gravity is moving to Asia, or more precisely, to (Afro-) Eurasia. China has emerged as a geopolitical great power and a geoeconomic superpower in this global reordering. In Western geopolitical discourse, China, Iran and Russia are often portrayed as 'others' that the West should be deeply concerned about.<sup>1</sup> The bilateral relationship between China and Iran, despite its immense significance, has remained understudied. This relationship is being further solidified in the geography of China's Belt and Road Initiative (henceforth, BRI). The spatial scope of the BRI can be best described in terms of the revival of the supercontinent of Afro-Eurasia. Critical geography tells us that geography is both material and ideational.<sup>2</sup> The ideational dimension comprises historical, cultural and ideological underpinnings of a geographic 'imaginary'. This piece examines the ideational foundations of the relationship between Iran and China to unpack how Iran perceives its place in this emerging (Afro-) Eurasian world of the BRI, in which China appears to be the most forceful driver of geoeconomic change and globalisation.

## The New Silk Road discourse

The BRI is a geoeconomic initiative that was introduced by China in 2013. It has multiple dimensions, mostly based on creating or enhancing the quality of Afro-Eurasian infrastructural connectivity. This connectivity is being created to further facilitate trade, financial, economic, political, diplomatic relations, security and cultural interactions in this emerging geography. The BRI has six geoeconomic corridors, one of which passes through Iran (the China-Central Asia-West Asia Corridor). Another major corridor, the China-Pakistan Economic Corridor, can potentially (almost directly) connect Iran to China through Pakistani territory. The BRI has also produced its own discursive package, the New Silk Roads discourse<sup>3</sup> (henceforth, NSR). The NSR envisages the revival of the ancient pre-Westphalian geography of the Silk Roads, in which empires and dynasties from both Iran and China had significant roles in terms of providing public goods such as road and trade infrastructure and security. There are clear similarities in the ways in which

<sup>1</sup> Walter Russel Mead, "The Return of Geopolitics: The Revenge of the Revisionist Powers", in: *Foreign Affairs* 93(3), 2014, pp. 69-79.

<sup>2</sup> David Harvey, *Spaces of Capital: Towards a Critical Geography*, Routledge, New York 2002.

<sup>3</sup> Peter Frankopan, *The New Silk Roads: The Present and Future of the World*, Bloomsbury Publishing, London 2018.

Iran and China have developed a sense of self-perception that plays into their self-positioning in the BRI. The most important of such discursive affinities is the way the two countries view themselves as continuous ancient civilisations that are still up and running. The two have lasted for more than two and half millennia. They have a deep-rooted history of statehood that precedes the formation of the Westphalian geographic and political landscape which emerged after the treaties of Westphalia in 1647 and 1648. The popular and elite discourses of these two countries share a strong sense of history that is not limited to contemporary or even modern times. The civilizational discourse in China aims to portray the Chinese state as a 'civilisation-state'<sup>4</sup> as opposed to a Westphalian nation-state. This discourse is not uniquely Chinese and finds resonance in India<sup>5</sup> as well as in other places like Iran.

### **Iran's geographic self-perception**

The idea of Iran being an ancient civilisation that is distinct from Westphalian nation-states is no stranger to any Iranian or Iran expert. Iran—or formerly Persia—played a major role in the history of the ancient Silk Roads. Various imperial states in Persia, beginning with the Achaemenid and Sassanid empires and continuing with later smaller-scale empires, played a major role in producing the road infrastructure and security that facilitated various types of exchanges across the Silk Roads, such as exchanges of commodities, cultures, languages, philosophies, religions and so forth. Even when Persian empires were conquered by others like Alexander or the Mongol Empire, the Silk Roads trade in 'Persian territories' operated on infrastructure (i.e., roads and caravanserais) that was built by previous Persian empires. The administrative language along these roads remained Persian (in some cases such as Tajikistan and Afghanistan, it still is today). In this historical, cultural and civilisational sense, contemporary Iran sees its place in the BRI as a natural one. This civilisational discourse is rather obvious in the way Iranian political elites formulate and express Iran's self-perception in international arenas. The Iranian president Hassan Rouhani, for instance, rejected accusations against his country in a speech at the UN, describing Iran in the following way: "Iran does not need an empire. Iran *is* an empire, in terms of its civilisation and culture. Not through political domination. Iran has served as the [gloeconomic] link between East and West and will continue to do so."<sup>6</sup> He was obviously referring to the pride of place that Iran had in its region at different moments in the long history of the Silk Roads. He went on to talk about Iran's "historical and civilisational longevity, rich cultural heritage, and foremost geopolitical position, [as] an undeniable reality"<sup>7</sup>, and offered an image of Iran as the gloeconomic and civilisational 'link' or 'crossroads' between

<sup>4</sup> Wei-Wei Zhang, *The China Wave: Rise of a Civilizational State*, World Century Pub. Corporation, Hackensack, N.J 2012.

<sup>5</sup> Ravinder Kumar, "India: A 'Nation-State' or 'Civilisation-State'?", in: *South Asia: Journal of South Asian Studies* 25(2), 2002, pp. 13-32.

<sup>6</sup> Hassan Rouhani, *Full text of Iran's President Rouhani speech at UNGA 73*, The Iran Project, 25 September 2018 (accessed 10 September 2019).

<sup>7</sup> Ibid.

East and West. Given its civilisational position, the Iranian official discourse sees its centrality in regional (i.e., Eurasian) geopolitics as undeniable. This ‘crossroads’ discourse is the most foundational aspect of the Iranian geographic self-perception. It has been given a boost since the emergence of the BRI in 2013.

Iran immediately embraced the BRI as an alternative mode of globalisation which was not driven by Western (super)powers and which recognised the significant role that Iran can play in this new era of globalisation. The Chinese state also emphasises this discourse about Iran. After the Iran nuclear deal (JCPOA), Xi Jinping visited Iran in 2016 and signed seventeen economic and trade deals, agreements and memoranda of understanding (MoUs). The two states also announced the establishment of a ‘comprehensive strategic partnership’. In the June 2018 visit of Mr. Rouhani to China and meeting with Xi Jinping, the two sides reaffirmed once more the significance of their partnership and emphasised that “both sides should take the joint building of the ‘Belt and Road’ as the mainline, lead practical cooperation, focus on fighting against terrorism, [and] promote law enforcement and security cooperation”.<sup>8</sup> The position of the BRI as the ‘lead practical’ platform for cooperation between the two states and nations is of major significance. In other words, Iran has officially and comprehensively committed itself to the vision and geography of the BRI.

### **The revival of Western Asia**

Another interesting development is that both countries, along with some others in the Middle East, have in recent years more decidedly referred to ‘the Middle East’ as ‘West(ern) Asia’<sup>9</sup>, which was the name for this region throughout some of the long periods of the ancient Silk Roads. In the context of the BRI and the discourse of the NSR, one can see that this geographic renaming is gaining increasing currency in the discourses of both China and Iran, along with those of other states. The main reason for this is that the term ‘Middle East’ is a relatively new Western terminology which was first used by British imperial offices in the middle of the nineteenth century, and which became popularised at the outset of the twentieth century by American geopolitical circles and thinkers. ‘West Asia’ as the new discursive label for the Middle East even appears in BRI maps and the name of the one corridor that passes through Iran, namely the China-Central Asia-West Asia Corridor. West Asia is an integral part of the BRI for various reasons. Historically, the region played a significant role in the history of the ancient Silk Roads through various Persian empires, Islamic empires, and later, the Ottoman Empire. The region matters immensely to the BRI for its sheer geographic attributes; if we take Eurasia or Afro-Eurasia to be the new centre of gravity, it is then hard to miss the fact that this region (regardless of whether one calls it ‘West Asia’ or ‘Middle East’) is one of the

<sup>8</sup> *Xi Jinping Holds Talks with President Hassan Rouhani of Iran*, Ministry of Foreign Affairs of the People’s Republic of China, 10 June 2018 (accessed 10 September 2019).

<sup>9</sup> See for instance Ayatollah Khamenei’s reference to the Middle East as ‘Western Asia’ in the following speech: *U.S.’s target in Western Asia is not Syria but Islam*, 17 April 2018 (accessed 10 September 2019).

most geographically central regions in this emerging world, and is perhaps *the* most central region in Afro-Eurasia, straddling, as it does, Asia, Europe and Africa. Within this central area, Iran has the most central place, connected, as it is, to various regions, actors, waterways and chokepoints which matter immeasurably to the smooth functioning of global geoeconomics and geopolitics (including the Levant, Persian Gulf, Strait of Hormuz, Arabian Sea, Caspian region, Central Asia, Persian Gulf energy resources and more). Iran is fully conscious of its centrality in this geography and is not shy about boasting about it, as evident in the Rouhani quote above.

## Ideational solidarity

There are ideational, historical and cultural factors that further solidify the bilateral relations of these two actors and create a sense of ideational solidarity. Iran and China both see themselves, discursively, as victims of Western imperialism, and hence, of humiliation in modern history. This 'humiliation'<sup>10</sup> discourse is all the more poignant for these countries in the backdrop of their long, continuous civilisational histories. Both countries support a multipolar world away from Western dominance of global politics; both advocate a multilateral diplomatic approach to solving global problems; both have undergone periods of rapid scientific progress (advancing four times as fast as the global average rate of scientific progress between 1980 and 2009)<sup>11</sup>; both countries have had more or less independent foreign policies as they have never been under the complete dominance or influence of other empires or superpowers in modern history; and there are considerable military, academic, scientific and trade relations between the two. And finally, the fact that the two civilisations have never in their long histories had a full-scale confrontation with one another plays a significant role in the way they perceive each other in security terms.

While the BRI is viewed in some Western political circles as a Chinese neo-colonial or hegemonic strategy, Iran (and many other non-Western actors) view it as a geoeconomic initiative with no imperial or colonial strings attached. Along the same lines, the two countries also continually emphasise the principle of territorial 'sovereignty' (ironically, a Westphalian concept) and non-interference in the affairs of other sovereign countries. Non-interference is one of the five core principles of Chinese official policy. It is therefore no surprise that the two have vehemently opposed Western interventions in their respective regions. The fact that the BRI is an 'Eastern' geoeconomic initiative, based on multilateral and bilateral arrangements and with no danger of military intervention, is already reason enough for Iran to embrace it. The two countries are also deeply concerned about their domestic 'harmony'<sup>12</sup> (the favourite term in China) and 'order'<sup>13</sup> (the favourite concept in Iranian

<sup>10</sup> Zheng Wang, "National Humiliation, History Education, and the Politics of Historical Memory: Patriotic Education Campaign in China", in: *International Studies Quarterly* 52(4), 2008, pp. 783-806.

<sup>11</sup> Eric Archambault, *30 Years in Science Creation: Secular Movements in Knowledge Creation*, Science-Metrix, February 2010 (accessed 10 September 2019).

<sup>12</sup> Héxié (和諧) in Mandarin.

<sup>13</sup> 'Nezam' in Persian.

discourse). Both have historically been diverse geographic entities (linguistically, ethnically, religiously and so forth) and have had many moments of social and political unrest or revolution, some of which have had devastating and bloody outcomes. It is therefore no surprise that both view the smooth functioning of their societies as a core principle of national or civilisational security and continuity and that they are both opposed to outside interventions. This factor is at the core of discursive tropes of the BRI, such as “the enhancement of bilateral friendship as the goal to deepen people-to-people and cultural exchanges and cooperation”<sup>14</sup> which was emphasised in the meeting between Rouhani and Xi Jinping in 2018.

## Outlook

Despite the commonalities, there are also many challenges to Sino-Iranian relations and some level of mistrust clearly exists between them. There is a negative public perception of Chinese commodities in Iran, where the public sees such products as inferior to Western alternatives. This view is however slowly changing as the quality of Chinese products improves over time. There is also a view in China that, were Iran to have a free hand in choosing its trade partners, it would not always automatically choose China owing to a cultural and rather unconscious preference for further interaction with Western countries, particularly European ones. On the other hand, there is a view in Iran that China is taking advantage of the sanctions situation and of the fact that China is the only reliable and sizable economic choice for Iran as a trade partner—a situation that has forced the Iranians to give China advantageous trade deals, especially in the energy sector.

In the grand scheme of things, however, the positives and commonalities far outweigh the negative issues and mistrust factors. The commonalities and mutual interests form a solid ideational foundation, on which these two actors can build their material and economic cooperation. Iran views the BRI and the emergence of China as a geoeconomic superpower as a welcome shift in global geopolitics and geoeconomics, hence a ‘look East’ policy advocated by Supreme Leader Ayatollah Khomeini and the idea of the ‘25-year roadmap’ for Sino-Iranian relations promoted by Iranian foreign minister Mohammad Javad Zarif.<sup>15</sup> This shift will allow Iran to become part and parcel of economic globalisation in this (Eur)Asian century. Ideationally and historically, Iran finds the supremacy of Asia as a more natural condition of international life. It views itself as the natural and central ‘link’ and ‘crossroads’ between various geoeconomic regions and corridors in the emerging geography of the BRI. All of this allows Iran to (ideally) circumvent its geopolitical and economic isolation in a new world order in which China is vying for supremacy and in which Iran is able to contend that its geoeconomic and geopolitical centrality cannot be denied.

<sup>14</sup> *Xi Jinping Holds Talks with President Hassan Rouhani of Iran*, Ministry of Foreign Affairs of the People’s Republic of China, 10 June 2018 (accessed 10 September 2019).

<sup>15</sup> *Zarif, Wang Discuss 25-Year Roadmap, Regional Stability*, Financial Tribune, 31 December 2019 (accessed 2 April 2020).

# Indo-Iranian Relations and the Role of External Actors

P R Kumaraswamy

Following the end of the Cold War, the Islamic Republic of Iran has emerged as a crucial but controversial partner for India in the broader Middle East. In the 1990s, both countries sought closer ties based on a host of political, economic and energy-related issues. The demise of the Soviet Union forced India to look for new friends for its reform-driven economic agenda, while the eight-year war with Iraq left Iran eager to come out of its largely self-imposed regional isolation. Both these motivations proved to be complementary and India and Iran subsequently began to discover areas where their interests converged, namely in energy security, regional security, trade relations and transit corridors. Beginning in the early 1990s, these convergences began to manifest in high-profile political contact, state visits, harmonious vision statements and growing commercial ties between the two countries. But at the same time, bilateral aspirations for a strategic partnership came into conflict with a host of other issues, serving to pull the two countries apart. Although both states acknowledged mutual civilisational ties, they nonetheless proved unable to overcome divergences in their worldviews, interests and approaches. The prolonged mutual indifference—and at times even unfriendliness—that characterised their relationship during much of the Cold War was not a conscious choice, rather it was the product of two different approaches to world affairs.

India's post-Cold War pragmatism occasionally came into conflict with Iranian propensities for revolutionary rhetoric. Hence, the strategic partnership envisaged by both countries following the visit of Prime Minister P V Narasimha Rao to Iran in 1993 was bruised, delayed and sometimes halted entirely by a host of controversies surrounding Iran and its policies; its nuclear aspirations were a particularly potent spoiler.<sup>1</sup> As a result, India's policy vis-à-vis Iran has come under greater international scrutiny and criticism since 2005, particularly from the US. While the nuclear deal afforded some temporary respite, India's approach towards Iran continues to be influenced by external actors. This paper looks at the role of three important players, namely Israel, Saudi Arabia and the US, who have noticeably affected India's approach to Iran. India's growing ties with these three powers do not

Prof. P R Kumaraswamy teaches classes on the contemporary Middle East at Jawaharlal Nehru University and is the Honorary Director of the Middle East Institute in New Delhi.

© Stiftung Wissenschaft und Politik, 2020

**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

<sup>1</sup> Having conducted the nuclear tests in May 1998, India was in not a position to ask Iran to abandon its nuclear programme and therefore confined itself to seeking Iranian compliance with its commitments to the NPT and dispel international concerns.



align with Iran's policies towards them and hence impede Tehran's relations with New Delhi.

## **The role of Israel**

Following normalisation in January 1992, Indo-Israeli relations have witnessed a general upward trajectory and encompass political, economic and military-strategic aspects. While the Congress Party was instrumental in reversing the four-decades-old policy of 'recognition without relations', political contact has increased under the Bharatiya Janata Party (BJP), as demonstrated by the visits of Prime Minister Narendra Modi to Israel in July 2017 and of Prime Minister Benjamin Netanyahu to India the following January. Meanwhile, Iran has emerged as the major opponent of the Israeli state and it continues to provide political, ideological and even military support to anti-Israeli groups such as Hamas and Hezbollah. Iran's proliferation-related activities are of grave concern to Israel because Iranian missiles are capable of reaching its territory. For its part, Israel has accused Iran of operating as the nerve-centre of international terrorism and of being a source of regional instability, with the accusations of the Netanyahu administration proving especially vocal in this regard.

In light of Israel's bonhomie with India extending back to the early 1990s, Israel has flagged its concerns vis-à-vis the Islamic Republic, which it perceives as an existential threat to the Jewish State. These concerns further escalated after a terror attack on an Israeli embassy official in New Delhi in February 2012 which was later attributed to Iranian nationals, with Tehran providing little cooperation on the subsequent investigation. The Israeli leadership is also concerned about the possible risks of India leaking Israeli military technology to Tehran; such fears were expressed during the visit of Prime Minister Ariel Sharon to India in September 2003. In contrast to other regional states, Iran continues to represent a thorny outlier in Indo-Israeli relations. Other countries like Egypt and Saudi Arabia have come to at least recognise—if not approve of—India's rationale for befriending Israel. New Delhi has continued to support the political rights of Palestinians, including their right to statehood. Yet the 'Palestine question' has been conspicuously absent from Indo-Iranian joint statements since the commencement of the Middle East peace process, likely due to their inability to agree on a common text. Senior Iranian leaders have snapped back by expressing their displeasure over growing Indo-Israeli relations with unfavourable remarks about Kashmir; one example occurred during Prime Minister Modi's visit to Israel when Iran's Supreme Leader Ali Khamenei commented that Muslims were being subjugated in Kashmir and Palestine.<sup>2</sup>

At the same time, New Delhi has managed to quarantine its Iran policy away from Israel and has consciously avoided becoming entangled in the Israeli-Iranian war of words. When pressed over reports of anti-Israeli rhetoric, then foreign min-

<sup>2</sup> Santosh Chaubey, *Iran's Supreme Leader Khamenei Rakes up Kashmir Bogey Twice in Two Weeks*, India Today, 5 July 2017 (accessed 20 January 2020).



ister Natwar Singh went no further than stating that New Delhi had recognised Israel “decades ago”.<sup>3</sup> In January 2008, India launched an Israeli spy satellite believed to be designed to monitor suspected military installations in Iran. For its part, the Indian security establishment has eschewed any public views—let alone criticisms—on Iran’s programmes to develop its missile and delivery capabilities because they are not seen as presenting a threat to India’s regional interests. Thus, New Delhi has handled the India-Iran-Israel triangle astutely and isolated its bilateral relations with Iran from Israeli influence, and vice-versa. It has repeatedly avoided expressing an official position on controversial statements and actions by either Iran or Israel.

## **The role of the United States**

In contrast to the limited degree of influence that Israel is able to exert over India’s approach to Iran, the United States has significant clout. The degree of US influence—and even interference—has been palpable since early 2005, when negotiations began on a civil nuclear deal between New Delhi and Washington. India’s aspirations to obtain civilian nuclear technology from the US coincided with prolonged US-Iranian tensions which had been exacerbated further by the controversy over Iran’s own nuclear ambitions. The situation clashed with the Indian desire to seek energy security with Iran and exposed it to intense political pressures from Washington in the form of anti-Iranian sanctions under the Iran and Libya Sanctions Act (ILSA, later renamed the Iran Sanctions Act, ISA) and other similar measures. US hostility towards Iran poses several major hurdles for India, such as: the inability to export oil products to Iran, which at one point crossed the \$1 billion mark; the inability to pursue the Iran-Pakistan-India pipeline for the import of liquefied natural gas (LNG); limits to Indian investments in oil and gas explorations in Iran beyond the annual limits set by ILSA (\$40 million, later reduced to \$20 million); difficulties in paying for oil imports from Iran after India was prevented from making dollar payments or using European payment routes (cumulative dues reached \$6.5 billion in 2016); and an increase in freight and insurance costs to import Iranian oil as a result of US and European Union sanctions.

Sanctions have hindered India’s capacity to improve its relations with Iran—most notably in the field of energy security—but Washington is not the only obstacle.<sup>4</sup> Tehran’s propensity to renegotiate agreements, its demands to revise and link LNG prices to global oil prices, its reluctance to allow foreign ownership of energy resources and its failure to address India’s security concerns about gas pipelines have also contributed to the failure of both countries to realise the energy security strategy outlined in the Delhi Declaration of January 2003.<sup>5</sup> At the same time, continuous American pressure, especially from 2005 onwards, manifested itself in a

<sup>3</sup> *India Recognised Israel Decades Ago*, The Hindu, 28 October 2005 (accessed 20 January 2020).

<sup>4</sup> P.R. Kumaraswamy, “Delhi: Between Tehran and Washington”, in: *Middle East Quarterly* 15(1), 2008, pp. 41-47.

<sup>5</sup> *The New Delhi Declaration*, Ministry of External Affairs of India, The Republic of India and the Islamic Republic of Iran, 25 January 2003 (accessed 20 January 2020).

swing by India against Iran in the International Atomic Energy Agency (IAEA) and the UN Security Council, when India voted against Iran over the nuclear controversy.

The periodic decline in India's imports of oil from Iran can be directly attributed to the US and its sanctions strategy. Iran has long been among the top five crude oil suppliers to India, but this supply has gradually dwindled under mounting US pressure and ceased after May 2019. India does not have the resources of other major powers such as China, Russia or the EU to withstand prolonged and constant American pressure. Closer ties with Washington are also key to India's own great power aspirations. US opposition at this juncture risks diminishing India's prospects for political ascendancy. Thus, India has been dovetailing its Iran policy in line with American demands across both the Obama and Trump administrations. In a move to placate the US, India had by mid-2019 stopped importing oil from Iran entirely.<sup>6</sup> However, under the mantle of 'Afghan reconstruction', India has received a time-unspecified exemption to continue developing the southern Iranian port of Chabahar and has already committed \$500 million to the project.<sup>7</sup> Periodic American statements and threats concerning energy imports have fuelled intense domestic debates in India about its Iran policy, which were particularly pronounced during the United Progressive Alliance's time in government (2004-14). Critics of India's policy on Iran—primarily from the Left—denounced American demands as unwarranted interference and an affront to the independence of India's foreign policy.

## **The role of Saudi Arabia**

The Kingdom of Saudi Arabia is a new but interesting piece in the Indo-Iranian puzzle. For many years, the Indo-Saudi relations remained transactional and dealt with little more than oil imports and the hajj. The Wahhabi conservatism and pro-Pakistani position of the al-Saud regime aroused suspicion in New Delhi. This distrust partly contributed to the growth of Indo-Iranian relations in the early post-Cold War years, but things began to change in the early 2000s when New Delhi started to decouple Pakistan from its Middle East policy—especially vis-à-vis Saudi Arabia.<sup>8</sup> The move generated a positive trajectory in Indo-Saudi relations amid both the emerging rivalry between Saudi Arabia and Iran for regional domination and the intensification of sectarian tensions in the Middle East, exacerbated by the US-led invasion of Iraq and the ensuing civil war. Iran's determination to shape events in Iraq, Syria, Lebanon, Palestine, Bahrain and Yemen, as well as in Saudi Arabia's Shia-dominated eastern provinces, clashes with Riyadh's policy strategies. The al-Saud regime and its regional allies are alarmed at the prospect of Iranian hegemony in the Persian Gulf, and these fears were heightened further when the Obama administration agreed to the nuclear deal despite their reservations or concerns.

<sup>6</sup> *India Stopped Importing Iranian Oil After the US Waiver Expired: Envoy*, Business Today, 24 May 2019 (accessed 13 September 2019).

<sup>7</sup> Congressional Research Service (CRS), *Iran Sanctions*, CRS Report for Congress, 11 September 2019, p. 57 (accessed 13 September 2019).

<sup>8</sup> P.R. Kumaraswamy and Md. Muddassir Quamar, *India's Saudi Policy: Bridge to the Future*, Palgrave Macmillan, Singapore 2019.

The Saudi-Iranian sectarian rivalry has been reflected in India's approach towards the region. At the height of the nuclear controversy, Indian officials and commentators voiced concerns over the 'Shia factor'.<sup>9</sup> The presence of a substantial Shia population in India—second only to that of Iran—and sectarian tensions in the Persian Gulf have given rise to domestic concerns in India. Any mishandling of its Iran policy risks a cascading effect within the country in the form of a Shia-Sunni conflict, as has been witnessed in Pakistan since the early 1980s. The Saudi willingness to increase its oil supplies to offset any drop of imports from Iran is a clear indication that Riyadh is preparing India for US sanctions. Recent moves to participate in India's strategic oil reserves and the construction of a new \$44 billion petrochemical complex in the western state of Maharashtra are intended to cushion India's appetite for energy resources. Moreover, in sheer strategic terms, Saudi Arabia is far more important to India than Iran; Saudi Arabia is home to around three million Indian expatriate workers—not to mention the source of substantial remittances.

## Conclusion

India's ability to pursue mutually productive and beneficial relations with Iran depends on a host of regional issues and challenges. On Pakistan, Afghanistan, a land corridor to central Asia, the fight against extremism and energy security, both countries are on the same page. However, certain Iranian policies, along with Tehran's perceived interference in the internal affairs of India's allies, have led to a sense of unease. Regional actors have sought India's support in response to fears of an Iranian hegemony in the Persian Gulf. Meanwhile, the prolonged nature of US-Iranian tensions, which have intensified during the Trump era, have hampered India's ability to pursue policies independent of Washington's whims and fancies. Hence, India's approach towards Iran will continue to be dominated and influenced by external factors and concerns, more so than by bilateral interests and agreements.

<sup>9</sup> WikiLeaks, *India-Iran Documents, Part 1*, MEI Factsheet no. 8, 28 June 2011 (accessed 20 January 2020); Avtar Singh Bhasin, *India's Foreign Relations, 2008: Documents*, Public Diplomacy Division, Ministry of External Affairs, Geetika Publishers (accessed 13 September 2019).

# Opportunities and Challenges in Iran-India Relations

Ja'far Haghpanah and Dalileh Rahimi Ashtiani

Dr Ja'far Haghpanah is a Visiting Assistant Professor at the University of Tehran and sits on the board of directors of the Iranian Regional Studies Association.

Dalileh Rahimi Ashtiani is a Master's Graduate from the University of Tehran and independent researcher.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

## SWP

Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3-4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

Relations between Iran and India have a long record of peace and stability. Both states are influential actors in their respective regions and have managed to maintain their enduring historical, political, cultural and trade ties for centuries. In the modern era, their relations were redefined shortly after India's independence, when Tehran and New Delhi signed a friendship agreement which came to be known as the 'Treaty of Friendship'.<sup>1</sup> In this paper, we aim to scrutinise the most important opportunities, limitations and prospects for the future of Indo-Iranian relations. We consider the transit sector as the most important area for economic cooperation between the two countries, ever since Indian oil imports from Iran came to a halt when the United States refused to extend oil waivers beyond May 2019. India's cordial relations with the United States as well as Israel present stumbling blocks on the way to further expansion of bilateral relations. While there are different Iranian camps with differing ideas on foreign policy, specifically on relations with the West and with Russia and China, there is greater consensus on the merits of enhanced relations with India.

## Economic potential and limitations

The cordiality of relations between Iran and India—along with the continued cooperation between Tehran and New Delhi after the United States withdrew from a multilateral nuclear deal with Iran officially known as the Joint Comprehensive Plan of Action (JCPOA)—presents a firm foundation for closer relational links. Several fields provide good opportunities for continued collaboration, most importantly the transit sector. The energy sector used to be a significant area of cooperation between Iran and India. As the world's second most populous country, India's burgeoning population and increasing demands for energy and oil resources held substantial promise for both Iran and India to further deepen their sectoral ties. Sensing this opportunity, India strived to obtain a waiver from reinstated unilateral US sanctions placed on Iran's energy sector in order to continue importing oil from Iran, and redoubled its efforts to have that waiver extended. The persistence of India's efforts to maintain the flow of Iranian oil signified its desire to preserve relations with Tehran. However, the decision by the US government not

<sup>1</sup> *Treaty of Friendship Between the Government of India and the Imperial Government of Iran*, Ministry of External Affairs, Government of India, 5 March 1950 (accessed 15 January 2020).

to extend oil waivers beyond May 2019 effectively ended India's imports of Iranian oil.

As energy cooperation has been severely hampered by US sanctions, so too have overall trade relations. Back in 2017, the total value of imports and exports traded between the two countries amounted to around \$5 billion. Fuels and oil represented a sizable portion of Iran's exports to India at that time, accounting for a 19 percent share of exports to New Delhi and generating \$520 million for the Islamic Republic. In terms of value, this product group represented the third largest slice of Iran's exports to India, behind only the \$2.2 billion generated by 'intermediate goods'—a broad grouping of goods used to produce a final or finished product—and non-oil chemicals (\$1.4 billion).<sup>2</sup> The loss of such a large portion of bilateral trade due to US sanctions has been substantial, emphasising the economic and strategic need for Iran to expand its non-oil trade with India. Thus, the current situation provides an opportunity for both Tehran and New Delhi to rethink ways to stabilise future relations within a well-defined framework—including measures to substitute foreign currency to use in trade exchanges and to establish a suitable mechanism to conduct such exchanges.<sup>3</sup>

The most promising field for growth is the transit sector. India's interest in this area is driven by a number of geopolitical and geoeconomic factors. India is situated in a geographic and strategic deadlock between China and Pakistan. The Iranian port of Chabahar gives New Delhi an opportunity to break out of that deadlock. The development of Chabahar will improve both Iran's and India's ability to access markets in landlocked Afghanistan, Central Asia and even Europe.<sup>4</sup> However, New Delhi's interest in Chabahar goes beyond purely economic considerations. The port provides India with a strategic alternative and potential challenger to the port of Gwadar, located in rival Pakistan. China envisages Gwadar as an important part of its Belt and Road Initiative (BRI). New Delhi's strategic rivalry with China incentivises cooperation with Iran in its closer regional neighbourhood, while India itself has refused to be part of the BRI. Meanwhile, the US attaches high importance to the Chabahar port due to its own geopolitical rivalry with China. To the US, Chabahar represents a potential opportunity to undermine Beijing's investment in Gwadar. The US-China rivalry—and the utility to the US of a developed Chabahar—was the main motivation behind Washington's decision to offer a sanctions exemption to India. Nonetheless, relations between New Delhi and Washington have on the whole conspired to hamper Iran's relations with India. Indian officials have over the past two years adopted positions that signify a desire to find an accommodating middle ground between Iran and the United States. However, the continued pressure of the US sanctions regime leaves considerable uncertainty as to India's ability to both maintain that middle ground and also substantially expand its economic relations with Iran. Thus, while India has received waivers to continue its

<sup>2</sup> *Iran, Islamic Rep. Product Exports and Imports from India 2017*, World Bank's World Integrated Trade Solution database (accessed 30 March 2020).

<sup>3</sup> *Interview with Indian Ambassador to Iran*, Eqtesad Online, 31 August 2019 (accessed 15 January 2020).

<sup>4</sup> Seyyed Amir Niakoe and Sajad Bahrami Moghadam, *Indo-Iranian Relations. Opportunities and Limitations*, in: *Journal of Foreign Relations* 6(1), Spring 2014, pp. 123-160 (accessed 15 January 2020).

work on Chabahar, the project has not made significant progress, as many Indian companies have shied away from investments due to US sanctions.

### **Other potential areas for cooperation**

From Tehran's point of view, there is still scope for enhanced collaboration between the two states beyond the transit sector. There is potential to expand ties on many levels, ranging from cultural relations like Persian language exchanges, the transfer of knowledge and technology and cooperation on environmental issues. The definition of a common economic and financial framework and efforts to boost mutual tourism are additional areas ripe for collaboration. Meanwhile, converging interests at the regional level also provide opportunities for closer cooperation. In greater Western Asia, Iran and India could work together to pursue common interests like stabilising Afghanistan and strengthening the central government in Kabul. They could also cooperate more closely to tackle the common threats of terrorism and extremism. At the same time, Iranian peacekeeping activities in neighbouring Afghanistan would have to involve Pakistan as well. Thus, Iran cannot avoid the challenge of balancing its relations with both New Delhi and Islamabad. India's relations with Israel are another potential stumbling block for regional cooperation between Tehran and New Delhi. As India's second largest defence supplier, Tel Aviv is concerned that some of its military technology may end up falling into Iranian hands. Military cooperation between India and Israel, which started in 1992 and was further enhanced as their relations normalised, has expanded to encompass sales of weapon systems, provision of military training and transfer of cyber technologies. India may find it hard to reconcile its cooperation with Israel in the military realm with expanding relations with the Islamic Republic.

### **Tehran's view of relations with India**

There are different foreign policy camps in Iran that hold grossly differing views on Iran's external relations, not only with the West but also with the East—particularly with countries such as Russia and China. India, on the other hand, presents a case of greater consensus among the political elite when it comes to expanding bilateral relations. This consensus derives not just from a historical background established on a history of peaceful relations and cultural linkages, but also from mutual interests shared by a majority of the Iranian political elite. There has been much support for deepening ties with India across the factional spectrum in Iran and under different governments. During the era of President Mohammad Khatami (1997-2005), the Reformists adopted a cooperative approach in pursuit of better relations with India, within the framework of improving Iran's foreign relations altogether. Under the presidency of Mahmoud Ahmadinejad (2005-2013), the Principlist camp saw India as a new emerging power which held the potential to act as a counterbalancing force against the Western bloc. Indian support would, they hoped, help Iran to resist the international pressure that was being put on Tehran due to its nuclear programme, and to counter what the Principlists perceived as US

political and cultural hegemony. While the current Iranian government under Pragmatist President Hassan Rouhani has prioritised resolving outstanding issues with the West, the Pragmatist camp has continued to maintain Tehran's strategic approach towards the East and reached out to countries like India as a means to break the current deadlock in the crisis surrounding the JCPOA.

Up until today, both the Reformist and Principlist camp have favoured expanded bilateral relations. Several prominent political figures—some considered potential candidates for presidential elections in 2021—have championed the case for closer relations. These include long-time Parliament Speaker Ali Larijani, Secretary of the Supreme National Security Council Ali Shamkhani, and former Energy Minister Parviz Fattah. Indo-Iranian relations represent a rare case of consensus in Iran, where Tehran's approach towards a global power has not degenerated into a topic of political contestation or led to increased factional infighting, in contrast to its dealings with countries like Russia or China. There is also much greater unity on foreign policy towards India among Iranian academics, civil society and the media than there is on Tehran's relationship with Moscow or Beijing. However, support for closer ties is not absolute, as there is a small minority of voices critical of Tehran's relations with New Delhi. A number of high-ranking clerics like Grand Ayatollahs Makarem Shirazi and Hossein Nuri-Hamedani have been outspoken in their condemnation of India's treatment of its Muslim minorities—most notably in Kashmir. These critics have repeatedly urged the Iranian government to prioritise Pakistan over India—particularly with regard to the Kashmir conflict.

### **Prospects of deepening ties**

At the domestic level in Iran, there are unlikely to be any serious barriers to the expansion of bilateral relations with India. At the international level however, Washington continues to be a major impediment to Indo-Iranian relations. As long as the US policy of 'maximum pressure' remains in place, it will be difficult for India to expand its economic ties with Iran, even within the framework of the Chabahar port project. This predicament might only change if some parts of the sanctions regime are relaxed. The US's allies have urged Washington to keep Iran in the JCPOA by issuing new oil waivers to buyers of Iranian oil. In the past, some of India's refineries worked entirely with crude oil imported from the Islamic Republic. New Delhi would be one of the first customers in line for more Iranian crude should calls for renewed oil waivers be successful at any time in the near future. Most importantly, however, the transit sector will remain a major field of potential cooperation—one that is closely related to geopolitical considerations. There is a serious effort to improve transit relations between the two countries, with a special focus on the Chabahar region. However, the completion of the project will very much depend on the willingness of Indian private companies to invest in it despite the broader US sanctions framework. If successful, the effort could counter the Sino-Pakistani cooperation in Gwadar and could also pave the way for trilateral political cooperation between Iran, India and Afghanistan. In addition, improved relations among these three countries could help to improve the efficiency of the collective fight against common threats in the region and counter the risk of the transnational

spread of terrorism. Overall, the Chabahar project could lead to the establishment of a new strategic zone and boost both Iran and India's regional influence. Given the efforts made by India to turn itself into a major global power, this issue will certainly become more crucial for New Delhi in the future. Moreover, India's refusal to be a party to China's 'Belt and Road Initiative' is a good opportunity for Iran, as it allows Tehran and New Delhi to close ranks on common interests and take advantage of the numerous opportunities arising from Chabahar.



# The European Pillar of Iran's East-West Strategy

Sanam Vakil

In reaction to the Trump Administration's withdrawal from the Joint Comprehensive Plan of Action (JCPOA) on 8 May 2018 and the reimposition of US sanctions on the Iranian economy, Iran has implemented a strategy to protect itself from the impact of sanctions and political isolation. Seeking to leverage opposition to President Trump's withdrawal among the parties of the JCPOA (Germany, France, Russia, China and the United Kingdom), Tehran has implemented an economic and geopolitical diversification plan. Judging from official statements, it appears that Tehran has sought to prioritise and strengthen its ties to Asian countries such as China, India and Russia, which have been more likely to engage with Tehran to offset the pressure of US sanctions. Supreme Leader Ali Khamenei has strongly endorsed this strategy, decreeing in October 2018 that Iran should "look East, not West (...) where countries are taking quick steps on their road to growth."<sup>1</sup> Khamenei's pronouncements aside, it is a mistake to assume that Tehran's strategy is solely focused on its eastern relations. In fact, despite historical and political frustrations, Iran's ties with Europe are equally pivotal. European relations serve to buffer against the Trump Administration's maximum pressure campaign and are designed to work in concert with Tehran's strategy of 'looking East'. In light of Iran's East-West diversification agenda and uncertainty over the future of the JCPOA, this paper will explore the historical drivers and divisions between Europe and Iran, arguing that Europe provides a strategically important pillar of Iran's sanctions survival strategy—one that includes both East and West.

## Historical precedents

Iran's post-revolutionary history with European nations has vacillated between bouts of engagement, dialogue and managed tensions. European nations have maintained regular diplomatic ties and a policy of engagement with Iran even after the 1979 Revolution, hoping that, through a strategy of engagement, they could nurture moderation in Iranian policy and behaviour. Even today, Europe's past engagement efforts continue to influence Iran's dynamics and serve as its model for future negotiations. For its part, Iran has—and continues to see—improved relations with Europe as an important factor in its international image and economic rehabilitation. Obtaining access to Western technology and maintaining diplomatic

Dr Sanam Vakil is Deputy Director and Senior Research Fellow in the Middle East and North Africa Programme at Chatham House in London.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

<sup>1</sup> *Ali Khamenei Speech*, Fars News Agency, 17 October 2018 (accessed 8 September 2019).

ties with Europe also has balanced against American isolation policies. Despite disagreements over Iran's human rights record, including the fatwa over Salman Rushdie,<sup>2</sup> in 1992, the EU began a 'critical dialogue' with Iran. Iran's support for terrorism,<sup>3</sup> its obstructionist position on the Middle East peace process and its proliferation activities were also key parts of this dialogue. Political changes in Iranian domestic politics helped change the tenor of relations. The 1997 election of Reformist President Mohammad Khatami, who advocated a 'dialogue of civilisations', led to increased academic, cultural, scientific and economic ties, which were eventually upgraded in 2001 in the Trade and Cooperation negotiations.<sup>4</sup>

European trade and investment in Iran that had begun after the war also started to increase during this period, such that the EU became Iran's most important trading partner. Over a ten-year period, European exports to Iran went from €3.9 billion in 1996 to €11.3 billion in 2006 and imports rose from €5.8 billion in 1996 to €14.1 billion in 2006.<sup>5</sup> Europe also became a large consumer of Iranian energy exports. Multinational European companies including Total, ENI and BASF provided investment and significant technology transfers to Iran. Conversely, the US government opposed EU trade with Tehran, and subsequently passed the US Iran Libya Sanctions Act. This legislation threatened to impose extraterritorial sanctions on European companies trading over \$20 billion—a move that also caused a transatlantic rift similar to the one evidenced today.<sup>6</sup> Despite the increase in economic ties, relations were stymied in 2002 over the discovery of undeclared nuclear sites in Iran. Resisting American pressure and calls for sanctions, European leaders led negotiations with Tehran that eventually resulted in the 2004 Paris agreement.<sup>7</sup> However, these gains were reversed with the outcome of Iran's 2005 presidential election, which resulted in the election of hard-line Mahmoud Ahmadinejad. In 2006, Ahmadinejad withdrew from this accord and restarted Iran's enrichment programme. While EU leaders continued to try to negotiate with Tehran, Iran was referred to the United Nations Security Council (UNSC) in the first of six UNSC resolutions for nuclear-related violations and opacity.<sup>8</sup> During this period, European policy towards Tehran shifted closer to the US position, leading to the graduated EU imposition of financial and oil sanctions on Iran. By aligning itself with the

<sup>2</sup> In 1989, Ayatollah Khomeini issued a fatwa ordering the death of British writer Salman Rushdie charging him with blasphemy in his novel 'The Satanic Verses'.

<sup>3</sup> In 1997, diplomatic ties were severed after Iranian leaders were implicated in the assassination of Kurdish leaders in Berlin.

<sup>4</sup> Adam Tarock, "Iran Western Europe Relations on the Mend," in: *British Journal of Middle Eastern Studies* 26(1), 1999, pp. 41-61.

<sup>5</sup> Thierry Colville, *EU and Iran Towards a New Partnership*, IRIS, 30 April 2014 (accessed 10 January 2019).

<sup>6</sup> In response to US pressure, the EU challenged the US ban and took the case to the World Trade Organization. Eventually, the issue was resolved on a bilateral basis where the US agreed to issue waivers for such investments: Tarock, "Iran Western Europe Relations on the Mend", pp. 41-61.

<sup>7</sup> The Paris agreement required Iran to suspend uranium enrichment, detail the full scope of its nuclear programme and facilities and sign the Nuclear Non-Proliferation Treaty Additional Protocol, which provided for more intrusive IAEA inspections.

<sup>8</sup> Walter Posch, *Iran and the European Union*, The Iran Primer, February 2016 (accessed 10 January 2019).

United States, Europe also sacrificed its independent negotiating position and effectively sanctioned itself out of the Iranian market. As a consequence of these sanctions, European firms withdrew from the Iranian market and Europe ceded its position as Iran's number one trading partner to China.<sup>9</sup>

In 2013, following secret back channel negotiations between Tehran and Washington and after the presidential election of Hassan Rouhani, new diplomatic efforts led by the EU recommenced. The result of these negotiations was the JCPOA, where Tehran agreed to nuclear concessions in exchange for the lifting of sanctions and renewed trade relations. The EU ultimately hoped that the JCPOA would provide a framework to resolve their outstanding issues with Iran. Upon implementation of the deal and the EU's suspension of nuclear-related sanctions, European country delegations and the business community began to reengage with Tehran. The EU's former foreign policy chief Federica Mogherini shed light on this hope, suggesting that the agreement "has the capacity to pave the ground for wider cooperation between Iran and the West".<sup>10</sup>

## Europe reacts

EU states and specifically the E3 (France, Germany and the UK) have made the protection of the JCPOA a question of principle, policy independence and economic sovereignty, as well as a non-proliferation priority. Europe sees Trump's withdrawal from the JCPOA as having instigated an unnecessary crisis on Europe's borders that has left them with the burden of incentivising Iranian compliance. At the same time, the challenge of addressing outstanding issues with Iran has taken a back seat to the JCPOA. These issues include the impact of regional instability, terrorism and refugees, Iranian government-sponsored terror attacks on European soil which resulted in the imposition of sanctions against Iran's intelligence ministry<sup>11</sup> and Iran's ballistic missile programme, transatlantic tensions and sanctions compliance.

Since May 2018, in an effort to protect the deal, Europe has gone 'back to the future', returning to its 2003 role of engagement and negotiation with the Islamic Republic. In doing so, Europe has sought to provide diplomatic, economic and financial cover to defend the JCPOA and with it guarantee Iran's continued compliance. To protect private companies from extraterritorial US sanctions, Europe has invoked the Blocking Statute also used in the 1996 dispute with the US. Despite this protection, EU companies, in order to safeguard their American business, have once again withdrawn from the Iranian market. Unable to compel the private sector to remain in Iran, Europe has also earmarked a token \$18 million for investment in the country. To facilitate financial transactions and trade, Europe has created a Special Purpose Vehicle (SPV) known as INSTEX that would allow private sector and humanitarian exchanges to continue. Setting up the SPV has been challenging, as

<sup>9</sup> Ibid.

<sup>10</sup> Parisa Hafezi, *EU's Mogherini in Iran to Discuss Nuclear Deal*, Reuters, 28 July 2015 (accessed 10 January 2019).

<sup>11</sup> The EU imposed sanctions on Iran's intelligence agency on 7 January 2019 for the sponsorship of terror attacks in Paris, Copenhagen and the Netherlands.

most countries and individuals fear the wrath and reach of US sanctions and doubt that the private sector will use this channel to facilitate meaningful trade. These steps on their own will not provide Iran with the adequate levels of trade and investment expected by Tehran. However, the symbolism of Europe's actions and the importance of EU diplomacy should not be discounted. In May 2019, the Trump administration withdrew oil waivers that permitted Iranian oil sales to eight countries, including China, Japan and India. Iran in reaction shifted to a confrontational position that has seen breaches of the JCPOA and escalation of tensions in the Persian Gulf over the seizure of tankers and the downing of a US drone. To mitigate these tensions, France's Emmanuel Macron led a critical diplomatic effort that sought to provide Iran with an \$15 billion credit line in exchange for its compliance with the JCPOA. The failure of this initiative saw increased US and Iranian posturing, resulting in Iran's reduced nuclear compliance as a pressure tactic, and Washington's continued reliance on sanctions. Europe, in the meantime, has been trying to hold the JCPOA together by continuing to discuss the nuclear agreement through the JCPOA's dispute resolution mechanism (DRM)—a process designed to try and resolve differences over compliance to hold off a nuclear crisis.

In spite of these efforts, policymakers have privately expressed frustrations over Iran's pressure tactics, which have included threats of a new wave of refugees bound for Europe, the removal of controls on drug trafficking, tanker seizures in the Persian Gulf and the uptick in arrests of dual nationals. Iranian government-sponsored assassination attempts in France and Denmark have compounded tensions further. Amidst the many domestic issues affecting the EU, ranging from Brexit to the impact of the refugee crisis and the rise of populism, the long delay in assembling these tools and packages has also revealed the limits of Europe's economic independence. Chinese and Russian ties with Iran, however, have been important balancers, providing practical engagement to offset Europe's more rhetorical one. Both countries have stepped up their own diplomatic and trade initiatives with Tehran, thereby incrementally supplementing for the limited European economic opportunities. Most importantly, China has continued limited purchases of Iranian oil. Russia has welcomed Iran into the Eurasian Economic Union, which will allow Iran to export oil through Crimea and participate in joint naval drills in the Persian Gulf.

## **Tehran pressures**

Policy debates and frustration regarding the European position have also divided policy elites in Tehran. Pragmatists around President Rouhani have long advocated a balanced East-West approach, believing European support (even if only symbolic) to be of great value for the Islamic Republic's international reputation. They argue that Iran's JCPOA compliance had improved Iran's standing. Acknowledging that Europeans are more nuanced in their assessments of regional issues and more sympathetic to Iranian security interests, Pragmatists also see the EU as a viable interlocutor for future negotiations. After the failed September 2019 French-led mediation, Rouhani offered Macron additional time to help his diplomatic initiative along. The January 2020 killing of Qods Force commander Qassem Soleimani has,

for the time being, closed down any diplomatic pathway. Complicating matters further, Pragmatists remain frustrated that China and Russia are benefitting from Iran's marginalisation by offering inferior pricing terms and imbalanced conditions for trade contracts.

Hardliners who are suspicious of Europe's intentions towards Iran question Europe's ability to deliver on its promises. They also find the combination of nuclear restrictions and sanctions to be untenable and insist that Iran should not remain in the JCPOA without receiving the benefits it was promised. Instead, they favour no-strings-attached eastern ties. Khamenei himself questioned Europe's ability to provide Tehran with economic support, stating early on "we don't want to fight with Europe, but these three countries have proved that, on the most sensitive issues, they follow the US".<sup>12</sup> In order to pressure Europe to make good on its promises, Khamenei laid out five conditions for Iran's continued commitment to the JCPOA, which include no further discussions on ballistic missiles, no additional sanctions, continued oil sales, secured banking ties and a resolution against the US for its violation of the JCPOA.<sup>13</sup> Should these conditions not be met, Iran would be justified in restarting its nuclear programme.

Hardliners are also taking advantage of Rouhani's policy failures in order to weaken Pragmatists in an attempt to make electoral gains. In the February 2020 parliamentary elections, conservatives won overwhelmingly due to high vetting of candidates by Iran's Guardian Council and low public turnout. A similar outcome is expected for the 2021 presidential elections. Seeking to discredit Rouhani's European relations, Hardliners are also suspected to have been behind the wave of assassination attempts in Europe. In spite of these challenges and threats, Iran is also constrained. Fully restarting its nuclear programme would refortify relations between Washington and Europe, as was seen in 2006 when Iran took on a more confrontational posture. Doing so could lead to the imposition of multilateral sanctions—a move that Iran seeks to block. As long as Iran receives marginal benefits from the symbolism of European political support and repeated statements in favour of the JCPOA, Tehran is locked in from making any dramatic moves. These layered challenges and political constraints indicate nothing but a bumpy road ahead for European-Iranian relations and the durability of the nuclear deal. At the same time though, they also reveal the value of continued engagement and diplomacy. European support for the JCPOA and diplomatic efforts provide Iran with greater leverage, without which Tehran would be isolated further. European defence of the deal also increases its own relevance and future ability to shepherd new negotiations once tensions subside. For Tehran, these ties work in tandem with its increased outreach to China and Russia. Effectively, Tehran's survival strategy is focused on leveraging both eastern and western relations. By keeping the door to both open, Tehran is better positioned to survive US sanctions pressure and pave its way to future rounds of negotiations which include both East and West.

<sup>12</sup> *To Remain in JCPOA, Imam Khamenei Announces Conditions to be Met by Europe*, Khamenei.ir, 23 May 2018 (accessed 8 September 2019).

<sup>13</sup> Ibid.

# Implications of Tehran's Look to the East Policy for EU-Iran Relations

Cornelius Adebahr

Dr Cornelius Adebahr is a nonresident fellow at Carnegie Europe, the Brussels-based global centre of the Carnegie Endowment for International Peace.

© Stiftung Wissenschaft und Politik, 2020  
**All rights reserved.**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
www.swp-berlin.org  
swp@swp-berlin.org

doi: 10.18449/2020WP03

As the United States puts pressure on Europe to cut down on its trade ties with Iran, Tehran has already set its sights eastward. Whether nuclear technology from Russia, oil sales to India, or all sorts of produce from China—Iran is certainly keeping its business options open as the EU struggles to keep its comprehensive cooperation agenda alive. To remain a player, the Europeans have to step up their game both through economic resilience vis-à-vis US sanctions and through policy initiatives to resolve the simmering crisis.

## Pragmatism or principle?

Lamenting Iran's turn to the East has become fashionable in the wake of Washington's unilateral withdrawal from the nuclear deal and Europe's difficulties in keeping its (economic) side of the bargain. Yet this is nothing new. Iran has refused to take sides since the 1979 revolution, as embodied in the latter's phrase 'neither East, nor West, but the Islamic Republic'.<sup>1</sup> Moreover, it is not only Iran that is 'turning East', the world's entire economic activity has shifted in that direction. Once America's dominance reached its pinnacle in the mid-20<sup>th</sup> century, Asia—first and slowly, Japan, and then, very rapidly, China—has pulled the world's economic centre of gravity to where it was 2000 years ago: Central Asia.<sup>2</sup> This is particularly true for the energy sector.<sup>3</sup> As a consequence, other Arab states around the Persian Gulf have also begun to intensify their business relations with Asia.<sup>4</sup> At the same time, politics *is* of course at play, given that European businesses feel obliged to follow

<sup>1</sup> For an assessment of Iran's aspiration for equidistance from the early days of the nuclear negotiations see: Sanam Vakil, "Iran: Balancing East Against West", in: *The Washington Quarterly* 29(4), 2006, pp. 51-65.

<sup>2</sup> *The Chinese Century is Well Under Way*, The Economist, 27 October 2018 (accessed 2 September 2019). Previously analysed by Richard Dobbs, Jaana Remes, James Manyika, Charles Roxburgh, Sven Smit and Fabian Schaer, *Urban World: Cities and the Rise of the Consuming class*, McKinsey Global Institute, June 2012 (accessed 2 September 2019).

<sup>3</sup> Ken Koyama, *International Energy Market's Gravity Center Shifting to Asia*, The Institute of Energy Economics Japan, IEEJ Special Bulletin, 30 May 2018 (accessed 2 September 2019).

<sup>4</sup> Jun Ding and Qian Zhao, "The Diplomatic Strategy of GCC States: A Case Study of Saudi Arabia's Recent Changing Diplomacy," in; *Asian Journal of Middle Eastern and Islamic Studies* 12(4), 2018, pp. 475-483.



US sanctions against Iran. In fact, even before the current US president announced his country's withdrawal from the groundbreaking 2015 Vienna agreement, resignation among businesspeople had already sunk in. Throughout the deal's implementation period, existing US bans on financial transfers had hampered even lawful trade. With Washington announcing its decision to reimpose all its original sanctions by early November 2018, most multinational companies quit their business in Iran.<sup>5</sup> Consequently, EU-Iran trade stalled in 2018 following a short-lived boom after the agreement was struck. At €18.4 billion, trade in goods stood more than 13% below the €21.0 billion level seen in 2017. This was a marked drop after two consecutive increases, doubling from €7.7 billion in 2015 to €13.7 billion in 2016 and growing again by another 50% in the following year.<sup>6</sup> Moreover, in the face of Washington's 'maximum pressure' campaign, the International Monetary Fund revised its earlier projections downward, expecting the Iranian economy to shrink by 3.9% in 2018 and 6.0% in 2019 year-on-year, respectively.<sup>7</sup>

Faced with the fading of the 'promised' European market, Iranians are understandably turning their trade eastward. Yet even this is not so easy, as the difficulties surrounding the development of the South Pars gas field have underlined in a highly symbolic way. The world's largest natural gas field is shared between Iran and Qatar due to its geographic location at the centre of the Persian Gulf. While Doha has exploited the riches of what it calls North Dome for nearly 30 years, the Islamic Republic began production on its side only in 2002, its efforts continuously hampered by US and international sanctions.

Much hope had been placed in boosting the country's emerging liquefied natural gas industry by enlisting French company Total together with Malaysian Petronas and Chinese CNPC for the further development of the gas field once sanctions were lifted in early 2016.<sup>8</sup> However, Total felt compelled to cede its share to CNPC in the autumn of 2018 in anticipation of Washington reimposing its oil and gas sanctions—only for the Chinese state-owned company to back out a couple months later for fear of straining US-China trade talks through continued investment.<sup>9</sup> Thus, what initially looked like the perfect embodiment of Iran being forced to turn eastward, now appears as a case of the country's broader economic malaise, or at least the sanctions-induced part of it.

<sup>5</sup> Clifford Kraus, *Trump Hit Iran With Oil Sanctions. So Far, They're Working*, New York Times, 19 September 2018 (accessed 2 September 2019); Ellen R. Wald, *10 Companies Leaving Iran As Trump's Sanctions Close In*, Forbes, 6 June 2018 (accessed 2 September 2019).

<sup>6</sup> European Commission, *European Union, Trade in Goods with Iran*, 19 March 2019 (accessed 2 September 2019).

<sup>7</sup> IMF, *Islamic Republic of Iran: Country Data*, International Monetary Fund (accessed 2 September 2019); See also: IMF, *World Economic Outlook, July 2019: Still Sluggish Global Growth*, July 2019 (accessed 2 September 2019).

<sup>8</sup> *Iran: Total and NIOC Sign Contract for the Development of Phase 11 of the Giant South Pars Gas Field*, Total Press Statement, 3 July 2017 (accessed 2 September 2019).

<sup>9</sup> Chen Aizhu, *CNPC Suspends Investment in Iran's South Pars After U.S. Pressure: Sources*, Reuters, 12 December 2018 (accessed 2 September 2019).

## **Either way, strategy is the answer**

Beyond the danger of underestimating the pragmatic rather than dogmatic nature of Iran's own 'pivot', however, East and West should in any case not be seen as mutually exclusive categories for the EU. Importantly, even as Tehran may want to coax the Europeans into deeper commitment, the EU's own model is not based solely on bilateral trade. Rather, the Europeans would—in principle—welcome Iran's broader re-engagement, including with Asian countries, as a means to stabilise the country's economy and to provide openings for European companies if and when they want to return. Moreover, the EU can point to 'big picture consistency': ever since the end of the Iran-Iraq war, European states have strived to engage Tehran. Resisting US pressure to isolate the country has been as much part and parcel of this approach as have the EU's own concerns, from demands for political reform in the 1990s to solving the nuclear issue from 2003 onwards.<sup>10</sup> As it happens, the EU does have a strategy to engage Iran which is centred on a 'comprehensive, co-operative, critical and constructive' approach that has been broadly consistent since 1992.<sup>11</sup>

Thus, while the EU does not need to mind Iran looking eastward, the broader question for Iran is: which strategy to follow? At the tactical level, Iran would be well-advised not to bank solely on one (European) horse and to let its other EU partners know about it. At the strategic level, however, trade with China, Russia, or India still cannot replace the Islamic Republic's European ties even given Europe's difficulties in counterbalancing US sanctions. This is evident despite the politicised rhetoric coming from the top of the Iranian leadership. In October 2018, Supreme Leader Ayatollah Khamenei warned that "looking to the West and Europe has no benefit other than having to stand idle, begging favors and undergoing humiliation."<sup>12</sup> Yet, rather than signaling a fundamental shift on the eve of the 1979 revolution's 40<sup>th</sup> anniversary, which made Iran's independence from world powers—both East and West—a cornerstone of the system's political ideology, this statement can be attributed to tactics at the international level as much as to domestic considerations.

Incidentally, the rhetoric about Iran's eastward turn is more pronounced than its substance. True, with energy consumption rising in Asia and declining in Europe, oil and gas-rich Iran will increasingly find its customers there, not here. Yet, right now US sanctions are creating problems for everyone, as they have greatly cut down Iran's oil exports from above 2 million barrels per day (b/d) to well below 1 million b/d, although they have failed to bring them down to zero.<sup>13</sup> Yet despite

<sup>10</sup> Cornelius Adebahr, "The Linchpin to the Iran Deal's Future: Europe", in: *The Washington Quarterly* 38(4), 2016, pp. 115-131.

<sup>11</sup> See also the European Parliament's proposal for an EU Iran strategy: *European Parliament Resolution of 25 October 2016 on the EU Strategy Towards Iran After the Nuclear Agreement*, European Parliament, 2015/2274 (INI), Strasbourg, 25 October 2016 (accessed 2 September 2019).

<sup>12</sup> *Iran Must Not Look West on Path of Progress: Leader*, Press TV, 17 October 2018 (accessed 2 September 2019).

<sup>13</sup> Elizabeth Rosenberg, *Impact of U.S. Sanctions on Iran Oil*, The Iran Primer, 23 April 2019 (accessed 2 September 2019).



Tehran's short-term urgency to sell oil to gain hard currency, the country's economy has diversified over the past decade: services including tourism contribute more to domestic production than the oil industry, and the export share of non-oil products has grown steadily while the oil sector's relevance for employment creation—needed for the high number of young graduates entering the job market each year—has decreased.

In addition, France, Germany and the United Kingdom are trying to maintain a minimum of trade, starting with humanitarian goods bartered through a 'special purpose vehicle' facilitating financial transactions with Iran.<sup>14</sup> However, while operational, this vehicle is yet to make an impact on EU-Iran trade, not least given the constant threat of US sanctions hanging over it and its leadership personnel. Despite all this, there is no other partner for Iran that can match Europe's full-range cooperation offer, from trade and energy to environmental issues and migration as well as to promoting academic, cultural and educational exchanges.<sup>15</sup> This approach is complementary, not contrary to China being a partner in oil and gas exploration, Russia providing nuclear technology under the 2015 deal's arrangements, and India investing in Iranian infrastructure to link the Indian Ocean to Afghanistan and Central Asia.<sup>16</sup>

### **But get communication right**

If the above has shown that there is little to substantiate the claim that Iran's relative eastward bend implies a break with Europe, the right signaling becomes even more important. In essence, policymakers in Tehran complain that it cannot be Iran alone paying the price to uphold the deal that its partners also pretend to prize.<sup>17</sup> If Washington can go unpunished for freely breaking the deal, the Europeans should at least incur some costs to provide the promised economic benefits to Iran. Here, the Europeans run the risk of not just lacking autonomy (vis-à-vis the United States), but also losing their credibility. So far, while the Iranians were frustrated at the Europeans' inability to disregard US regulations, they understood that their willingness to engage was sincere. This understanding is increasingly dwindling as hardliners portray Europe's position as simply being the 'good cop' to America's

<sup>14</sup> Keith Johnson, *EU Offers Up a Meager Workaround to U.S. Iran Sanctions*, Foreign Policy, 31 January 2019 (accessed 2 September 2019).

<sup>15</sup> European External Action Service, *Joint Statement by the High Representative/Vice President of the European Union, Federica Mogherini and the Minister of Foreign Affairs of the Islamic Republic of Iran, Javad Zarif*, 16 April 2016 (accessed 2 September 2019).

<sup>16</sup> John W. Garver, "China and Iran: Expanding Cooperation under Conditions of US Domination," in: *Toward Well-Oiled Relations? China's Presence in the Middle East Following the Arab Spring*, ed. by Niv Horesh, Palgrave Macmillan, London 2016, pp. 180-205; Farhad Rezaei, "Iran and Russia: Completing the Pivot to the East?," in: *Iran's Foreign Policy After the Nuclear Agreement*, ed. by Farhad Rezaei, Palgrave Macmillan, Cham 2019, pp. 51-81.

<sup>17</sup> Foreign Minister Javad Zarif literally said—and subsequently tweeted—in mid-February 2019 that "Europe needs to be willing to get wet, if it wants to swim against the dangerous tide of US unilateralism"; Munich Security Conference (2019); *Picking up the Pieces – Report from the MSC 2019*, Munich Security Conference, 20 February 2019 (accessed 2 September 2019).

'bad cop'.<sup>18</sup> In that sense, 'having options' also works the other way around: Iranian policymakers feel that its 'Eastern' (i.e. non-Western in a political sense) partners treat Tehran better when their country maintains its alternatives in, rather than cutting ties with, Europe. From Russia's or China's great power perspective, Iran is useful to align with against the US superpower, to be exchanged in a bigger bargain with Washington if the latter was on the table. Meanwhile, India does not even pretend to withstand US pressure. In turn, Beijing and Moscow are aware that Tehran's first choice for business is Europe—and that Iran is coming to them now as part of a plan B that it is willing to abort the moment the Europeans can resume trade ties.

The EU and its members therefore have to make clear that they, too, are willing to invest in the relationship—all while addressing the issues that continue to get in the way of deeper ties, mostly relating to Iran's regional policies and domestic repression. This means following the EU's broad approach, but making it more robust along the way. In the end, it is also the EU's strategy which is at stake. Decreasing its dependence on the US economic and financial system—and hence its vulnerability to US sanctions—is a long-term endeavour that goes beyond the Iran file. The EU's response should therefore be two-pronged: when it comes to Iran's professed reorientation to the East, Brussels and EU capitals need to appreciate the underlying domestic dynamics and live up to their original trade commitments. The resulting costs, monetary as well as political, should be weighed against the second part of the strategy: Europe's aspiration to be a more capable and recognised, independent and, ultimately, 'sovereign' global actor.<sup>19</sup>

<sup>18</sup> Andrew England and Monavar Khalaj, *US-Iran: On a Collision Course for War?*, Financial Times, 21 June 2019 (accessed 2 September 2019).

<sup>19</sup> Barbara Lippert, Nicolai von Ondarza and Volker Perthes (eds.), *European Strategic Autonomy: Actors, Issues, Conflicts of Interests*, Stiftung Wissenschaft und Politik (SWP)/ German Institute for International and Security Affairs, March 2019 (accessed 2 September 2019); Mark Leonard, Jeremy Shapiro, *Strategic Sovereignty: How Europe Can Regain the Capacity to Act*, European Council on Foreign Relations (ECFR), 25 June 2019 (accessed 2 September 2019).