

Iran and the West Asia Region Changing Dynamics and New Challenges

Shri Sanjay Singh, IFS (Retd)*

West Asia is afflicted by the continuing violence in Syria and

Yemen, the Palestinian-Israeli conflict, the deepening divide between Iran and Saudi Arabia, sectarian conflict, extremism, terrorist violence and external intervention. Each of these will continue to have serious implications for the region and beyond.

The Islamic State (IS) has been defeated but not eliminated with its cadres dispersed in Iraq and Syria as well as the countries from where they came, carrying with them their grievances born from discrimination, sectarian conflict and the absence of meaningful employment and economic opportunity. The breakdown of state order in several countries of West Asia owing to conflict and external intervention provides a fertile breeding ground for extremism.

'Arab Spring' which commenced in 2011 was the result of authoritarian and static political order not addressing the aspirations of the people for a reformed and moderate state and society and improved opportunities. However, except in Tunisia, these uprisings have only led to instability, and in some countries resulted in repression and civil war.

The resulting conflicts have devastated Syria and Yemen which have also become a battleground for a proxy war between Saudi Arabia and Iran. The activities of the Muslim Brotherhood and Salafi-Jihadists as well as those of Israel and Turkey feed fuel to the fire. The situation is further vitiated by great power intervention in the region.

In Syria, the peace talks brokered under UN auspices are not making any progress and the Russian brokered Astana/Sochi peace process faces its own hurdles. The US today faces difficult

choices between supporting its Kurdish allies or not alienating Turkey, its NATO partner as well as whether to maintain its presence in Syria about which President Trump is ambivalent. The Syrian regime assisted by Russia and Iran is meanwhile making steady progress in re-establishing its control over the country. Russia is developing a greater understanding with Turkey and is to supply it the S-400 missile system. Israel recently had its first loss since 2006 of an aircraft, a F-16, in combat. This raised doubts about its unchallenged control of the regional airspace and its defence against Iranian/Hezbollah missiles. Israel does not want the Iranian presence to grow on its northern borders and has responded forcefully with increased bombardment of the area.

Yemen is in a state of chaos. The Hadi-led Government has scant control and the country has been divided into areas of influence of different tribal and political groups. The Hadi-affiliated national armed forces, supported by the Saudis and the Emeratis, have made no progress in their fight against the Houthis and Al-Qaeda militants in the south. The increasing divide and hostilities between the Hadi Government and the Southern Resistance forces (SRF) is another problem that Yemen did not need. The revival of the peace process will require political accommodation between the Hadi and Houthi forces, a polity that will provide space for local aspirations, the cessation of external intervention in the country and international political and financial support. Otherwise, the fratricidal war will continue endangering stability across the region and continue to pose a threat to Saudi Arabia.

Iraq seems to have stabilised after the defeat of Islamic State in Mosul, but the situation remains fragile. The Government, led by PM Al-Abadi, was relatively more focussed on bringing the various communities of Iraq together and addressing the sense of discrimination felt by the Sunnis. It also arrested Kurdish fissiparous activities. The results of the elections held on 12 May 2018 could have further strengthened Abadi's hands and helped him move the country forward; but his formation has come third after two Shia groups. The first led by a Shia cleric Sadr who is not too enamoured of Iran but even less so of the US. The second draws its strength from the Shia militias. It remains to be seen how

Iran behaves through its proxies, especially the Shia militias in the country post US withdrawal from the JCPOA before a definitive prognosis for Iraq can be made.

The major regional powers : Iran, Egypt, Turkey, Israel, Saudi Arabia have all been weakened one way or another and will not be able to effectively address regional instability which will continue and will affect as under :-

(a) Firstly, energy security which would possibly lead to higher prices. Higher prices though, may not continue as there are contradictory trends, with oil prices coming under increasing pressure from renewables and the shale oil industry in the US. If prices fall again the budgets of States dependant on them will be squeezed affecting their domestic social contracts:

(b) Secondly, sea lanes of communication and trade through the Suez, Bab-al-Mandab, Gulf of Aden and the Strait of Hormuz, which are already under threat from pirates and other extremist elements and could be affected by regional hostilities:

(c) Thirdly, the region itself and beyond, through further growth of radical and fundamentalist ideologies, sectarian conflict and terrorism.

The disunity in the region will continue to suck in the Great Powers as well as disgruntled elements, further compounding the problem.

The **US** will remain present in the region, especially to safeguard its own national interests. While the shale oil and gas revolution has reduced the region's importance for the US, nevertheless the US, continues to maintain its bases in the region (5th fleet in Manama, Bahrain and USAF Centcom at Al Udeid Airbase in Qatar) and its Naval Support Facility in Diego Garcia, and is capable of projecting force all over West Asia. The visit of President Trump to the Kingdom of Saudi Arabia was his first visit abroad. He has taken steps towards developing a special relationship with the Kingdom and its Crown Prince Mohamed Bin Salman. However, he believes that countries of the region should

assume a fairer share of the burden for their own security. How the relationship will play out remains to be seen. President Trump and his national security team have also extended great support for Israel and Israeli Prime Minister Netanyahu and have bought into the Israeli narrative on the Palestinian issue and the peace process as well as on Iran. Under President Trump's watch, the US embassy has been moved to Jerusalem. This could put an end to the two-state solution and lead to greater strife in Palestine.

Europe's trade and energy interests are adversely affected by developments in the region, especially in the contiguous Maghreb. It also faces a growing refugee problem owing to the instability coupled with the rapidly growing population of the region and Africa. Extremist and terrorist ideologies have also made inroads into Europe and many of its residents have been indoctrinated and pose threat to its internal security. European economic interests in Iran are threatened by re-imposition of sanctions by President Trump. Nevertheless, despite the negative consequences, it continues to intervene in the region as recently seen in its participation of the bombing of alleged chemical weapons facilities in Syria.

Russia utilised the opportunity in Syria to insert itself more forcefully into the region as also to degrade the extremist threat to the Caucasus from Chechen cadres of the Islamic State (IS). The cooperation it has extended to Organisation of the Petroleum Exporting Countries (OPEC) over oil and gas production and pricing has also been helpful to it in enhancing its influence in the region. It has been hosting a stream of visitors from the region seeking its cooperation, including from Iran, Turkey, Egypt, Saudi Arabia and even Israel.

China's presence in the region is growing exponentially owing to burgeoning Chinese imports of energy resources and trade with West Asia and its growing economic presence. The Central belt of the Belt and Road Initiative (BRI) traverses the region which is witnessing China's increasing maritime presence and acquisition of naval facilities in the Red Sea and Indian Ocean Region. Authoritative Chinese studies have called for its greater strategic engagement with the region.

Iran

It is against this background that we need to examine developments in Iran. Iran is about half the size of India with 81mn people, 60 per cent below 30 and the most populous in West Asia. 15 to 20 million of them are in schools and colleges, in the process the country is developing enormous human capital. It boasts of modern infrastructure, developed industrial base and considerable acumen in science and technology. Its agricultural sector provides it food security and its energy resources, energy security. It is quite capable of sustaining itself even under severe sanctions.

Iranian population consists of 51 per cent Persian, 16 per cent Azeris, 10 per cent Sunni Kurds, with Baluchis, Gilanis, and Arabs around its periphery. It has a rich historical legacy and its location contributes to its crossroad culture. It does have internal contradictions between its periphery and the centre; rich and poor; urban and rural divides and aspirational youth against its conservative system. But its people are one on Iran's right to be a nuclear power.

Iran is an Islamic democracy led by an all-powerful Supreme Leader Ayatollah Khomeini and the clerical establishment. The main objectives of Iran are the preservation of the Islamic State and regime and spreading its influence for which the major instrument is the Revolutionary Guards. Iran has well-developed security and defence capabilities. Iran has multiple centres of power: the Clerics, the Security forces, the Majlis, the Judiciary and the Government itself, in seemingly perpetual debate against one another. Iran considers itself to be critical country in a crucial region. It wishes to lead the Islamic world, in which pursuit, it clashes with Saudi Arabia. Its activities also impinge negatively on Israeli and US interests.

Iran's pursuit of nuclear capability brought it to adverse attention and pressure from the US, Europe and the UN to force it to desist. This concerted pressure which included economic sanctions was an important factor which led it to agree to the Joint Comprehensive Plan of Action (JCPOA). This deal, which entailed in return for the removal of sanctions, Iran's suspension of nuclear

activities but not the elimination of its nuclear capability, was opposed by Israel and Iran's neighbours in the Gulf who were against its increasing influence and support to its allies in Syria, Iraq, Lebanon and Yemen. Post the P5+1 nuclear deal, Iran's economy strengthened owing to the renewed access to international finance and trade, ramping up of production and exports of oil and gas and renewed access to its funds banked abroad. Chinese and some European companies began reinvesting in Iran.

President Trump during his Presidential campaign had vociferously expressed his opposition to the P5+1 Agreement with Iran arrived at by his predecessor President Obama in 2015. He felt that the Agreement was seriously flawed and did not ensure that Iran would not become a nuclear power and that the deal's non-inclusion of Iranian missile development and activities in the region needed to be addressed, for the United States to continue supporting it. Iran had made it clear that the deal was not renegotiable. President Trump has now withdrawn US from the deal. In this he has the support of his Secretary of State, Pompeo and National Security Adviser, Bolton.

The differences on this deal are indicative of the divide in the American establishment on Iran. President Obama and his team were perhaps hopeful that Iran, given incentives, could become part of the solution to the problems besetting the region and that Iran and the US could eventually achieve a 'grand bargain' and settle all differences. President Trump and his team do not believe that it is possible for the US to do business with the present regime in Iran which they hold responsible for the problems and terrorist violence in the region. President Trump and his national security team have also bought into the views of the Israeli Prime Minister Netanyahu as well as those of the Kingdom of Saudi Arabia and its Crown Prince Mohamed Bin Salman – both opponents of the Iran deal and Iran in general.

President Trump has re-imposed all US nuclear-related sanctions – both the suspended primary and secondary sanctions on Iran's economy, including on the oil and financial sectors. However, unlike earlier there will be no additional European and the UN Security Council sanctions. The US in any case, even after

the JCPOA continued to maintain sanctions on Iran related to terrorism, human rights violations and ballistic missile development, which practically ruled out business activity by US firms in Iran except with specific waivers. The US Treasury has indicated that the sanctions would be renewed progressively from the start of the process on 06 August 2018 and by 04 November 2018 all the sanctions that the US had imposed on Iran before the JCPOA will be reinstated. This will affect Iran's ability to trade in US dollars and to sell its oil. Exemption from oil related sanctions will be provided to those countries which can show that their oil purchases from Iran are significantly reduced.

The re-imposition of US secondary sanctions targetting Iran's international trade and finance with other countries and its oil and gas exports that will make it difficult for it to find partners. Other countries, including India would be forced to make a choice on whether or not to respect the sanctions. European economic relations with Iran will be seriously affected, leaving Iran, Russia, China and handful of other countries as its partners.

French Minister of the Economy, Bruno Le Maire said Europe has to defend its 'economic sovereignty'. He questioned whether Europeans want to be vassals and bow to decisions made by the US. EU is considering enacting blocking regulations to protect its entities. European banks facilitate trade with Iran. Energy major, Total of France, and automobile companies Renault and Peugeot have investments in Iran. Total has announced that it will not proceed on its project in Iran without a specific waiver. Logistic major, Maersk has indicated it will halt business with Iran. Airbus's plans to sell 100 planes to Iran is in jeopardy because it sources parts from the US. European institutions will remember that HSBC, BNP, Credit Suisse, Deutsche Bank etc. have paid large fines to the US for not respecting its unilateral sanctions. Last year European Union (EU) imports and exports from Iran both were of the order of US\$ 11 bn and investment about US\$ 4bn in comparison to exports of US\$ 593bn to US and imports of US\$ 475bn from US with US\$ 2.75 trn invested in the US and US\$ 2.4 trn US investment in Europe. Given their huge stakes in the US market, European Banks and companies are likely to be cautious. While European leaders have re-affirmed their

commitment to the JCPOA, Iran has said that it will see what this means in practical terms before taking its own decision.

India is presently the second largest destination for Iranian oil exports. Indian oil companies will now have to use currencies other than US dollars for payments to Iran and route it through banking channels outside the US. These may be difficult to find given US sanctions. In case the Indian Rupee - Rial arrangement is re-instated huge Iranian rupee balances may again build up in India unless Iran imports more from India and balances bilateral trade with India as it does with China or even with South Korea, Japan and Turkey to an extent. In any case Indian companies would have to show significant reductions in imports of oil if they are not to attract any sanctions. Indian involvement in Chabahar Port may also be affected if the US determines that it contributes to Iran's nuclear programme and/or if sanctioned Iranian construction companies are involved in the project. India would need to get clarifications from the US administration before taking a view.

It is not surprising, therefore, that the GoI Press Release of 09 May 2018 skirting contentious issues said: "India has always maintained that the Iranian nuclear issue should be resolved peacefully through dialogue and diplomacy by respecting Iran's right to peaceful uses of nuclear energy as also the international community's strong interest in the exclusively peaceful nature of Iran's nuclear programme. All parties should engage constructively to address and resolve issues that have arisen with respect to the JCPOA." While it is not in Indian interest that another nuclear power emerges in the region it is equally important that India exercises its autonomy on relations with Iran.

The sanctions are likely to unite the Iranian nation behind the regime. If Europe too is unable to keep open the channels of trade and finance with Iran, Iran may resume pursuit of its ambitions of becoming a nuclear power with renewed vigour. Iran would also seek to strengthen alignments which may not be in US interest. While President Trump is determined to undo the nuclear deal, he may push Iran further into the Chinese economic embrace. China already has an overwhelming economic presence in the country being Iran's largest economic partner with growing investment in

its oil and gas sector, the largest customer of Iran's energy exports and which views Iran as an important constituent of its BRI, providing China connectivity to the Levant and the Persian Gulf. Iran's trade with China has more than doubled since 2006, to over US\$ 37 billion in 2017. The biggest chunk of Iran's oil exports goes to China, about US\$ 11 billion a year at current prices. The first high ranking visitor to Teheran after the signing of the JCPOA was President Xi Jinping in January 2016 when the two countries released a vision of trade relationship of US\$ 600 bn by 2030.

Iran's activities in the region to expand its influence, has diverted scarce resources at the cost of its own domestic economy, consequently increasing the hardship faced by its people. Iranian currency is under pressure and has devalued considerably. The agitations in Iran earlier this year could be attributed to growing economic difficulties. This compelled President Rouhani to urgently try and address the problems the people face. The disgruntlement will only grow because of the reintroduction of US sanctions.

However, the agitations were also symptomatic of the positioning by different contending groups in anticipation of the power struggle in post-Supreme Leader Khamenei Iran. The Regime 'liberals' which include President Rouhani and his group will be in competition with the more conservative anti-US groups including a majority of those in the Revolutionary Guards and the Clergy. The US would have done well at this juncture not to become an issue in Iran's domestic politics which is exactly what President Trump by walking out of the nuclear deal has made it.

India

It has considerable interest in the Gulf and the broader region with which it shares civilisational ties. Over 8 million of Indians live and work in the region. The region provides around 70 per cent of India's oil and gas requirements as well as phosphatic fertilizers and Urea essential for agriculture. It is India's largest economic partner with trade exceeding US\$ 100 billion annually and a growing investment partnership. Prime Minister Modi has pursued energetic diplomacy with the region visiting over the last four

years Saudi Arabia, Oman, Qatar, Jordan, Palestine, Israel, Iran, UAE thrice and Turkey for the G20 summit. His outreach has yielded positive outcomes resulting in enhanced political, economic, security and defence partnership and has been matched by reciprocal visits. India has developed bilateral institutional mechanisms to enhance cooperation in the fight against terrorism and extremism as well as defence and security cooperation arrangements with nearly all countries in the region. India in its interactions with the countries of the region has been non-prescriptive, non-interfering and has sought to promote dialogue and moderation. It is important however, that India start thinking beyond this, and examine possible options for playing a more robust role in the region.

Shri Sanjay Singh, IFS (Retd) joined Indian Foreign Service in 1976. He retired as Secretary (East) in April 2013. He had a number of coveted assignments during his service including India's Ambassador to Iran. He has been closely watching developments in West Asia and India's relation with the Region.

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