

The American Sanctions on Iran and Implications for India: Part 2

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The decision of the US government to end waivers to eight countries for import of Iranian oil will come into effect on 01 May, 2019. Although some of these countries may well defy the unilateral American sanctions, most, including India are likely to comply. This will reduce India's Iranian oil imports substantially, squeezing the money that Iran could earn. Iran is already facing economic problems due to continued pressure by the US (among other factors). Its problems are likely to get compounded after 01 May.

Earlier, the United States has also designated Iranian Revolutionary Guards Corps (IRGC) as a terrorist force. Although, this may have been done due to IRGC's involvement in the civil war in Syria, it led to accusations that the US was preparing for a broader war with Iran. The USA's Secretary of State, Mike Pompeo, denied that America was seeking a regime change. Even if one assumes that this is not the case, increasing pressure on Iran may eventually lead to an armed conflict.

Iran is heavily dependent on petroleum exports to sustain itself economically. The American sanctions are already biting hard, and have led to large-scale problems for Iran. The country's Gross Domestic Product (GDP) has been shrinking gradually. The Iranian currency Rial has lost 60% of its value since 2018. Inflation is running high, leading to less purchasing capacity for the population, which, in turn, has led to a downward spiral in the economy. In fact, net inflation is expected to reach upwards of 40% after the removal of waivers on 01 May 2019.

Unfortunately, Iran, as well as other countries caught in the crossfire, are finding it difficult to find a solution to the problem. The US, together with the other five major powers, had come to an agreement with Iran culminating in a deal in 2015, called the

‘Joint Comprehensive Plan of Action’ (JCPOA). This was aimed at Tehran discontinuing the Iranian nuclear programme in return for relief from sanctions. The Trump administration has withdrawn from this agreement and unilaterally slapped the sanctions again. Despite the other powers continuing to adhere to the JCPOA, the agreement looks dead. The resumption of the Iranian nuclear programme, therefore, is likely to be one of the fallouts of the US action.

Iran has threatened to block the Strait of Hormuz. Although these threats have often been articulated by Iran in the past, the frequency and the seriousness of the threat has multiplied after the recent American move. For both, oil exporting countries and oil importing ones, this is a matter of serious concern. The Iranians have admitted that this would be their last resort. Unfortunately, they don’t have many options left.

Iran will need to take a decision on its course of action before the economy crashes completely. The choices are all harsh. Either Teheran will have to bear the current hardships until a more conciliatory President comes to power in Washington DC, or it will be forced to do what the current Trump administration seeks. The 12 demands made by the Trump administration on Iran before the slapping of sanctions are perceived to be rather harsh. Succumbing to American pressure may not be acceptable to the hardline ayatollahs in Teheran. The ruling elite has fed the public on a staple anti-American diet and built its reputation on its ability to stand up to the US.

The smaller, moderate faction in Iran, which is in favour of negotiations, has suffered a loss of credibility after the unilateral withdrawal of the US from the JCPOA. The hardliners, with reasonable justification, have accused the moderates of continuously bending over backwards to accommodate increasing American demands.

“The enemy wants to drag us to the negotiating table through economic pressure,” said General Qasem Soleimani, Commander of the overseas arm of the Iranian Revolutionary Guard Corps (IRGC). *“Any negotiations under the current circumstances will be mere surrender and we definitely will not undergo this humiliation.”*

The evolving situation, therefore, seems to be leading only in one direction, that of an armed conflict. The Strait of Hormuz, which Iran controls, is the easiest outlet for Iran to express its frustration. Any hindrance in the free flow of maritime traffic through the

Strait will adversely affect the economies of all oil exporting countries of the Persian Gulf region. This includes Iran's arch rival, Saudi Arabia, as well as other States hostile to it, such as the United Arab Emirates (UAE).

The Chief of Staff of Iran's armed forces, Major-General Mohammad Baqeri, has been quoted as saying:

"If our oil does not pass, the oil of others shall not pass the Strait of Hormuz either"

The threat by Iran to choke the Strait of Hormuz, therefore, needs to be taken seriously. Other stakeholders in the Gulf have specifically expressed their concerns vis-à-vis the Iranian threat.

These developments are extremely relevant to India, which is clocking impressive economic growth year after year, on the back of its rapidly increasing trade. The importance of the Persian Gulf as a factor in this process of economic development cannot be overstated. Not only does India import almost all of its oil from the Gulf, but it also exports much of its merchandise to the Gulf countries. The United Arab Emirates (UAE) alone is India's second largest export destination. Any disruption of shipping in the Strait of Hormuz would snap a vital bridge, which has made India the fastest-growing large economy in the world.

If Iran does choose this path, it would mean war with other Gulf countries and perhaps also with the major non-resident powers. This would lead to skyrocketing of petroleum prices in the global market. If oil infrastructure is damaged during the course of the conflict, it could have a serious and lasting impact. The Indian economy is extremely sensitive to fluctuations in the price of Crude. A large part of country's economic growth is dependent on public spending on infrastructure by the government. The depletion of FOREX reserves will dry this investment up and stall the momentum of the Indian growth story.

Unfortunately, there seems to be no meeting ground between the US demands and the Iranian position. Without an immediate solution in the offing, New Delhi can only prepare for worst-case scenarios. India must make alternative arrangements to source its

petroleum imports. At the same time, of course, New Delhi must also overcome its addiction to fossil-fuels by investing in renewables and nuclear energy.

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