



Iran's Look to the East Policy 2.0: Reconciling Foreign Policy Independence and Economic Integration

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Ayatollah Khamenei, as the Supreme leader of the Islamic Republic of Iran sets the directions of the national security and foreign policy of the country. The Leader recently advised President Rouhani that 'while it is fine to establish ties, continue negotiations with Europe, you should stop having hopes in them on issues like JCPOA or economic matters.'¹ Earlier this year, asking Iranian government to avoid dependence on foreign countries, the leader argued that 'in foreign policy, top priorities for us, today, include preferring the East to the West, preferring the neighbouring countries to the far reached locations, preferring nations and countries that share in our goals.'² Iran has been working with European signatories to the nuclear agreement to circumvent the unilateral sanctions, but given the Europeans inability to make 'economic guarantees' to Iran and their opposition to Iran's ballistic missile program, the Leader has supported Look to the East policy as better tuned with Iran's revolutionary identity and with country's long-term strategic and economic interests.

The Look to the East policy first launched by President Ahmadinejad (2005-2013) was aimed at deepening relations with emerging powers Russia, China and India in order to counter Western pressure over Iran's controversial nuclear program and to further Iran's development goals, identified in 20 Year National Vision. The renewed emphasis on deepening relations with the 'Eastern bloc' stems from Iranian leadership's view of the international system as undergoing an era of transition of power, in which the pole of economic power and along with it political power is gradually shifting from the West to the East, towards Asia. This transition, in their view allows rising powers and regional players more space to shape the international order. The Look to the East Policy 2.0 of Rouhani administration seeks to step up contacts with Asian countries at a time when the influence of the United States over relations with these countries has weakened,

while shifting the focus of engagement from oil exports to investment projects.³ This paper examines the contours and content of Iran's relations with three important pillars of its Look to the East policy, namely Russia, China and India.

Emerging Iran-Russia Strategic Partnership

Iran-Russia relations had been modest until recently, especially due to Iran's historical memory of suspicion and negativity towards Russia, to whom Iran lost massive territories in South Caucasus in humiliating treaties of Gulistan (1813) and Turkmenchay (1828). After the collapse of Soviet Union removed a major security threat on Iran's northern border, the impetus for cooperation between the two countries was provided by their shared opposition to the NATO expansion, the so-called 'velvet revolutions' in post-Soviet states such as Georgia and Ukraine and shared perceptions of the Sunni radicalism in the region. Their partnership based on convergent views on security and stability in the region culminated into anti-terrorism cooperation, as a part of which Russia embarked on a military campaign in support of Iranian ally President Bashar al-Assad in Syria.

As many on the both sides increasingly argue that the Iran-Russia partnership is moving beyond tactical to strategic in nature, the two countries are also taking note of the fact that the economic relations between the two countries have been poorly developed, nuclear energy being a major exception. In 2014, after Russia completed Iran's first nuclear power plant in the Southern Iranian port city of Bushehr, it signed a contract to build eight more nuclear power plants.⁴ The ground for closer economic cooperation, especially in oil and energy sector has been created by the American sanctions on the two countries. As the Trump administrations' hostility towards the Iran nuclear deal made European oil companies jittery about investing in the country, Iran turned to Russian state-owned companies reeling under Western sanctions over Moscow's intervention in Ukraine. Following the US withdrawal from the nuclear agreement, Ali Akbar Velayati, top foreign policy advisor to the Supreme Leader travelled to Moscow and Beijing to strengthen long-term cooperation and counter the US 'economic war' against Iran. In Moscow, Velayati argued that Russia-Iran oil cooperation can be developed to some \$50billion, with major Russian oil companies investing in crude exploration and production, as well as refining. In March, 2018, in a first deal with a Russian company, Iran's Dana Energy entered into a \$742million deal with state-owned Zarubezhneft, which will cover the eighty five percent of the financing of the project of developing the Aban and Paydar oilfields near the Iraqi border. The increased production from the two fields is expected to add \$4billion to Iran's oil revenue over the coming years. Earlier this year Russia also approved the formation of a free trade zone between members of the Eurasian Economic Union (EAEU) and Iran; a move that is widely hoped to boost oil trade between Tehran and Moscow and make it easier for Iranian oil to reach international market.⁵

Keen to capitalise on its strategic location along the Persian Gulf and Caspian Sea, Iran seeks to be a key node in transcontinental transport infrastructure connecting Europe and Asia along north-south axis as opposed to the east-west axis supported by the United States, such as Trans-Caspian pipeline from Turkmenistan to Europe via Azerbaijan, Georgia and Turkey. The

International North-South Transport Corridor (INSTC), a multimodal land-sea transportation route that links India with Europe through Iran, south Caucasus and Russia also seeks to increase regional trade connectivity amongst Russia, South Caucasus, Iran and Central Asian republics.

The increasing security and economic cooperation between Iran and Russia also influences strategic realities in the region. The shared Russian and Iranian preference for regional cooperation explain how the five Caspian littoral countries including Azerbaijan and Kazakhstan, which have close cooperation with NATO and United States -- which helped these countries bolster their military defense and even build their navies -- reached a compromise and signed a convention on its legal status. A key achievement from both Iranian and Russian perspective is the article calling for the 'non-presence in the Caspian Sea of armed forces not belonging to the Parties,' laying to rest their fears of NATO's military presence in the Caspian.⁶

Iran-China Partnership: Energy, Investment and Connectivity

President Xi Jinping visited Iran in January 2016, immediately following the implementation of the JCPOA and the lifting of the sanctions. Hailing the agreement for establishment of 25-year strategic relation between the two countries, the Supreme Leader Khamenei argued that 'the government and people of Iran have always looked and are still looking for expanding relations with independent and trustworthy countries like China.' Expressing Iran's willingness to work with the Chinese plans to revive the Silk Roads, he further said that the 'Islamic Republic will never forget China's cooperation during the time of sanctions.'⁷

The economic ties between Iran and China have been on an upswing since Ahmadinejad administration launched the Look to the East policy to circumvent nuclear sanctions imposed by the West. In early 2014, when the United States loosened sanctions on Iran under an interim nuclear agreement, China emerged as Iran's top trading partner and has maintained that position since then. As the top client of Iranian crude – in 2017, one third of Iranian oil exports are sold to China – China is central to Iran's effort to maintain its oil exports, notwithstanding the US threats to reduce it to zero. China has also emerged as the prime source of energy as well as infrastructure investment, especially after European companies have been fleeing Iranian market fearing the US secondary sanctions. After French Total failed to get a waiver from the US sanctions and declared it was pulling out of \$1 billion deal it signed last year to develop the phase II of the South Pars gas field, CNPC which held 30 percent stake in the project is set to acquire the majority stake.⁸

A key component of Iran's Look to the East Policy 2.0 is to find synergies with regional connectivity and economic projects spearheaded by Russia, China and India. Iran regards China's Belt and Road Initiative as a strategic opportunity for enhancing its own geoeconomic standing in the region and also for its potential for creating a balance of power in the international political economy.⁹ As Iran seeks to expand and modernise its infrastructure network, Chinese investment has been welcomed. In September 2017, Iran and China signed the biggest economic deal since the removal of sanctions in 2016, providing a credit line of \$10 billion to the Iranian banks to fund projects in areas such as energy, natural environment, transportation and management of water resources.¹⁰ In March, 2018 China National Machine Industry Corps (Sinomach) signed a contract

worth \$845 million to build a rail link connecting Tehran to Hamadan and Sanandaj in Western Iran.¹¹ The project is part of 3,400 km New Silk Road rail connecting Tehran with Urumqi in China and also four Central Asian Republic Kazakhstan, Turkmenistan, Uzbekistan and Kyrgyzstan.¹² Given its ongoing connectivity projects with China and to avoid competing dynamics between Chabahar and Pakistan's Gwadar port project -- a key interface of China Pakistan Economic Corridor (CPEC) connecting Pakistan's Arabian Sea coast to Western China through transportation and energy infrastructure -- Iran has avoided a zero-sum view of the project.¹³ Earlier this month when Saudi Arabia signed three agreements to fund road infrastructure and energy projects related to CPEC, Iran took a pragmatic line in arguing that the project is a 'game changer' for the region and Iran does not oppose any country's participation.¹⁴ Earlier this year Iran expressed interest in a rail-link up between Gwadar and Chabahar. Keen to complete the long-stalled Iran Pakistan (IP) pipeline project, Iran also hopes that the Gwadar-Nawabshah LNG pipeline being developed within the framework of CPEC is stretched to the Iranian border and connected to the Iranian section of the pipeline completed in 2011.¹⁵

Iran-India Partnership: Energy and Connectivity

India Iran relations received a renewed momentum after international sanctions were lifted in early 2016. Four months after the sanctions were lifted, India, Iran and Afghanistan signed a historic deal to develop Iran's Chabahar port and connect it to Afghanistan through a trade and transport corridor. In January 2017, Iran became India's third largest crude supplier. As the two countries sought to expand their energy relations beyond buyer and seller relation, India's ONGC Videsh, the foreign arm of Oil and Natural Gas Corp sought development rights over Farzad B gas field, it had earlier discovered.¹⁶

However, a centrepiece of Iran-India relations is Chabahar port located on the Gulf of Oman coast and Iran's main outlet to the Arabian Sea. The port is being developed by India as an entrepôt for expanding its trade with Iran, Afghanistan and Central Asian republics. To operationalise the potential of the port, India has invested massively in connecting Chabahar with Zaranj-Delaram road in Afghanistan and in Chabahar-Zahedan railway link, to be extended to Mashhad in eastern Iran and thereon to Central Asia.¹⁷ As India's interaction with Central Asia intensifies, especially since India became a member of the Shanghai Cooperation Organisation in June last year, Iran becomes central to India's outreach with the region. In February this year, with the objective of diversifying India's connectivity options with Central Asia, India joined the Ashgabat agreement, which seeks to create a transport and transit corridor between Turkmenistan and Uzbekistan in Central Asia and Iran and Oman in Persian Gulf region.¹⁸ Also, when during the Uzbek President Shavkat Mirziyoyev's recent visit to New Delhi, India and Uzbekistan set a bilateral trade target of \$1billion to be achieved within two years, they decided to route their trade through Chabahar.¹⁹

At a time when Iran and India are striving to make their relations multidimensional in nature, the key challenge before the countries is to immunise their ties against third party influence. The fact that India's two state refiners have contracted 1.25 million tonnes of Iranian oil

for import for the month of November and the government is preparing to replace dollar with rupee trade, thereby circumventing the impending American sanctions on Iran's oil and banking sector, indicate that the two countries are set to strengthen their relations on the basis of mutual interest. As the next round American sanction on Iran is due on November 4, New Delhi has redoubled its efforts to complete the remaining work on the first berth and make it operational within coming weeks. However, as New Delhi considers Chabahar as crucial to its extra-regional connectivity ambitions and also for its developmental role in Afghanistan, Washington is expected to take a liberal approach towards the project, it considers in harmony with American objectives in Afghanistan.²⁰

Conclusion

Iran's Look to the East policy as witnessed in Iran's burgeoning strategic relation with Russia and economic partnership with China and India, especially in terms of long term connectivity projects emerges from Iran's traditional bipolar view of the international system. The policy also indicates that the previous era of 'neither east, nor west,' when Iran viewed the international order as hegemonic and sought to change the status-quo and fundamental rules of the international system, has given way to Iran seeing itself as an Asian country and strengthening relations with the emerging powers of Asia. The Look to the East policy allows Iran to benefit from its integration into the world economy, while avoiding dependence on the West. This is especially important given the pursuit of an independent foreign policy remains a key marker of Iran's revolutionary identity. The policy also presents a strategic opportunity to emerging economies such as India and China to realise their projects of regional connectivity, with Iran as the crucial land-bridge between Europe and Asia.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.*

Endnotes

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