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US-IRAN CONFLICT: Impact on Indian Economy and Defence Budget



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DG ITBP



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FLUCTUATING POWER

The tangled web of cooperation between allies has significantly impacted not only the economies of the three countries, but also the national security of each of the parties involved. Each decade has brought numerous new challenges to India, Iran, and America. However, the refreshing partnerships between India and the US have signaled a long-standing alliance where economies and defences will benefit both countries for many years to come.

India-Iran Allies Since Ages

As seen in a 13 November 2013 report entitled Perspectives on India-Iran Relations, it can be found that the relationship between India and Iran has always been checkered, but with the recent waves of Western sanctions against Iran, relations between the two countries have now become much more complicated.

The alliance between India and Iran (and many other countries) can be divided into three major periods, beginning with Independence in 1947 and continuing through 1990. The first era is characterised by “Nehruism,” a policy of maintaining neutrality with superpowers and forming coalitions with Third World countries. The second period (1991-2001) was highlighted by economic reform, the acquisition of advanced technology, and participation in



international relations (globalisation). During the third period (2001 to the present), India's foreign policy has focussed on developing national security partnerships, particularly with the USA.

Since Iran is rich in oil and gas reserves, it has helped India to avoid over-dependence on Saudi Arabian oil, which is important because Saudi Arabia has traditionally maintained close ties with Pakistan, India's decades-long adversary.

Two other major factors that bind Iran and India together are: (1) the trilateral agreement to develop the Iranian Port of Chabahar, partly to counter Chinese investment and influence in Pakistan's Gwadar Port, and (2) India's infrastructure investment projects along Iran's border with Afghanistan, also intended to help balance Pakistan's influence in Afghanistan.

The economic and political alliances between India and Iran (such as the Joint Commission Meetings), became much more challenging after 22 April 2019, when the US ended all earlier sanction waivers for countries buying oil from Iran, thus compelling India to look for other suppliers, while also forcing New Delhi to reassess not only its previous trade arrangements with Iran, but its entire "three poles" Middle East policy (Arab Gulf States, Israel and Iran).

Before the sanction waivers ended, India was the second-largest buyer of crude oil from Iran (about 480,000 barrels per day), but India has fully complied with the newest American policy. To make up for the loss of supply from Iran, and to help stabilise the international oil markets, both Saudi Arabia and the United Arab Emirates have boosted production, while India now imports significantly more oil and gas from the US.

Meanwhile, as oil consumption in India gradually increases, its domestic oil production has decreased from about 270 million barrels in 2015-2016, to 250 million barrels in 2018-2019, raising concerns about India's energy security. And, although the US has also issued India a waiver to continue developing Chabahar, many companies remain cautious of doing any kind of business in Iran, resulting in a major reduction of trade passing through the port.

On 07 November 2019, Iran Foreign Minister Javad Zarif stated that India was being bullied by the US, adding that he expected India to strongly resist the pressure of the US' sanctions, that "India is already bullied by the United States because they tell you not to buy oil from us," and that he was disappointed by the slow progress of the Chabahar Port, which was being developed in collaboration with India.

Since the strike on Qasem Soleimani on 03 January 2020, this kind of diplomatic posturing seems like a faded remnant from another era.

India-America As Allies

A US Department of State, Office of the Historian publication entitled A Guide to the United States' History of Recognition, Diplomatic, and Consular Relations, by Country, since 1776: India, states that:

The United States recognised the Union of India as an independent state on 15 August 1947, when President Harry S. Truman sent a congratulatory message to Lord Louis Mountbatten, Governor General of the Dominion of India. An Interim Government of India was formed on 02 September 1946, and this is the government with which the United States established diplomatic relations prior to formal Indian independence.



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US Secretary of State Michael Pompeo, Pentagon Chief Mark Esper, Indian Foreign Minister Subramaniam Jaishankar and Indian Defence Minister Rajnath Singh attended a joint press conference in Washington.

Another good review of the alliance between India and America is 31 December 2019 article entitled Deepening Alliance Between United States and India Faces Headwinds in 2020s, which states that the US sees India as a:

[R]egional heavyweight that may counterbalance China's rising power. India's relation with China remains strained due to the legacy of the 1962 War; China's military buildup of road infrastructure and military forces on the border with India; Xi Jinping's New Silk Road initiative, which includes a road through Pakistan-controlled Kashmir; and Beijing's military ties with Islamabad.

A 30 September 1965, declassified CIA analysis provides some further background on the relationship between India and the United States:

US economic and military aid to India and Pakistan has been extensive. The US military aid of over a billion dollars has completely re-equipped the Pakistani army and air force, which are now almost wholly dependent on US' aid for spare parts and maintenance. There has been much less US military assistance to India, which, until 1962, chose to purchase military equipment from a variety of countries, primarily the UK. Following the Sino-Indian Border War, the US granted India about \$120 million in military assistance, and in 1964, agreed to provide up to \$100 million of military equipment annually, half in aid, and half in credits. US' aid to India and Pakistan was stopped when the two countries started fighting in 1965. Provided that the US' aid continued, however, India would try to avoid additional strains on its relations with the US.

Fast-forwarding to present day, the US and Indian armies began the 15th iteration of the Brigade-level bilateral US-India Yudh Abhyas military exercise at Joint Base Lewis-McChord in the US State of Washington on Friday, 08 September 2019.

As stated during the opening ceremony of the exercises,

"Nothing could be more important over the past 15 years...than us preparing for war together. It started with platoons and companies conducting basic battle drills and today there are over 700 Soldiers participating in this exercise," said the US Army's 7th Infantry Division Commanding General, Maj Gen Xavier T. Brunson, who also remarked that, "We know our Soldiers are better after they train together. Both of our armies have gained a wealth of knowledge on how to fight in complex terrain all over the world".

Three days later, on 11 September 2019, the Government of India announced it would invest \$130 billion in the next 5-7 years to modernise all branches of the armed forces, while bolstering their combat capabilities over rivals in the region [China and Pakistan], to procure a range of weapons, missiles, air defence systems, fighter jets, submarines and warships, drones, and surveillance equipment, and to develop the infrastructure for extensive use of artificial intelligence.

Two months later, on 15 November 2019, the Indian and US militaries began “Tiger Triumph”, a tri-Services joint amphibious humanitarian assistance and disaster relief (HADR) military drill, conducted in Visakhapatnam and Kakinada in the southern Indian state of Andhra Pradesh. This new operation showed that relations between India and America have steadily deepened, while adding to an already extensive list of other military exercises that have been conducted since the early 1990’s, including Yudh Abhyas, Vajra Prahar, the tri-lateral Malabar exercise (India, Japan and the USA), the bi-annual Rim of the Pacific (RIMPAC) submarine exercises, and the three-week Red Flag air defence exercises.

On 18 December 2019, US Secretary of Defence Dr. Mark T. Esper met with India Defence Minister Rajnath Singh and External Affairs Minister Subrahmanyam Jaishankar at the Pentagon, who then met with Secretary of State Michael R. Pompeo. During a subsequent press conference, Secretary Esper said, “Our defence relationship is strong, and since the establishment of the 2+2 ministerial last year, it continues to improve,” adding that America and India are taking steps to strengthen their maritime partnership and to expand military-to-military cooperation, including

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the two nations’ ground forces, air forces and special operators.

During these December 2019 meetings in Washington D.C., it was also announced that three more agreements had been finalised under the India US Defence Technology and Trade Initiative (DTTI), that would allow “us [India and America] to co-produce and co-develop credible technologies.” It was also announced that two sides discussed China’s growing global footprint, a matter that is of particular concern for both the US and India, and other major challenges on the Indian subcontinent, notably the rivalry between India and Pakistan.

On 20 December 2019, a “senior US State Department official” announced the India-US relationship on counterterrorism, “especially cross-border terror emanating from the territory under Pakistan’s control” has deepened, while also observing that, “We consistently speak to India and work closely together with India on issues related to counterterrorism; and citing the “pretty clear language” in the 2+2 joint statement that underlines the key role that the Financial Action Task Force (FATF) plays in combating terrorism funding “with regard to Pakistan”.

The joint statement specifically named the terrorist role of “al-Qaeda, ISIS / Daesh, Lashkar e-Tayyiba, Jaish-e-Mohammad (JeM), Haqqani Network, Hizb-ul Mujahideen, TTP and D-Company” while insisting that Pakistan

“take immediate, sustained and irreversible action to ensure that no territory under its control is used for terrorism against other countries in any manner, and to arrest and prosecute the perpetrators of cross-border terrorist attacks, including 26/11 Mumbai and Pathankot”.

Regarding the Chabahar Port project, the same senior US State Department official said that the two countries continued to have regular high-level discussions on Iran:

“We’re eager for India and other countries really to join us in this maximum pressure campaign and in trying to constrain and constrict Iran’s nefarious and malign behavior in the world. We decided to adopt a narrow exemption of sanctions related to Iran to promote Afghanistan’s development. That decision was made in the context of being able to support Afghanistan’s reconstruction and development... and to allow Afghanistan to be able to export products and ultimately integrate with the regional and global economy”.

Conclusion

The tangled web of cooperation between allies has significantly impacted not only the economies of the three countries, but also the national security of each of the parties involved. Each decade has brought numerous new challenges to India, Iran, and America. However, the refreshing partnerships between India and the US have signaled a long-standing alliance where economies and defences will benefit both countries for many years to come. 