

# INTERSECTING INTERESTS: THE COMPLEX DYNAMICS OF INDIA, IRAN, AND CHINA IN BRICS

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*Despite supporting the BRICS expansion to incorporate 'strategic partners' such as Iran, India is now navigating a geopolitical shift. The expansion not only bolsters China's influence through its partners' involvement in the Belt and Road Initiative (BRI) but also complicates India's relations with Western allies, considering Iran's contentious actions. India's strategic involvement in Iran, primarily through the Chabahar port amidst the Taliban's rise in Afghanistan and tensions with China, underscores the intricate balancing act New Delhi must perform. In addition, domestic political maneuvers, leveraging relations with Iran to appeal to Shia voters, further intertwine India's foreign policy with its internal political agendas amid the evolving BRICS landscape.*

Sujata Ashwarya\*

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\* Professor Sujata Ashwarya is a Professor at the Centre for West Asian Studies, Jamia Millia Islamia, New Delhi, India.



As of 1 January 2024, the BRICS coalition has broadened its membership to encompass Iran, Saudi Arabia, Egypt, Ethiopia, and the United Arab Emirates. The acronym ‘BRIC’ was initially formulated in 2001 by Jim O’Neill, the chief economist at Goldman Sachs at the time, in a research paper that underscored the economic potential of Brazil, Russia, India, and China. The formal establishment of this grouping was spearheaded by Russia, which hosted the inaugural BRIC summit in 2009 in Yekaterinburg. The expansion continued with South Africa’s invitation to join the coalition in 2010, which necessitated the addition of an ‘S’ to the acronym, thus evolving BRIC into BRICS.

The recent enlargement of BRICS, incorporating five new members from key strategic areas like the Middle East and Africa, is expected to augment the bloc’s GDP by \$2.6 trillion. This expansion not only strengthens the economic influence of BRICS but also substantially broadens its economic foundation by bringing in economies from crucial global regions. As a result, the total economic output of the bloc is projected to reach \$28.5 trillion, accounting for 28.1 percent of the world economy.<sup>1</sup> Additionally, the total investable wealth within the BRICS bloc is now estimated at USD 45 trillion.<sup>2</sup> However, as a coalition of rapidly developing economies, BRICS is poised for substantial economic expansion, with the potential to eclipse the G7’s economic dominance within the next three decades.<sup>3</sup>

At the 2010 summit in Brasilia, Brazilian President Lula da Silva notably stated, “We have a fundamental role in creating a new international order,” emphasizing the coalition’s ambition to shape global governance. However, BRICS’ journey towards offering an alternative to the conventional financial and political structures has been complex and met with mixed success. Its most significant achievement to date is the establishment of the New Development Bank (NDB) with \$50 billion in capital, aimed at financing infrastructure and sustainable development projects. Yet, the NDB’s impact pales in comparison to the World Bank.

Criticisms, notably from BRICS acronym creator O’Neill, highlight the group’s limited success beyond establishing the NDB and annual meetings. Despite significant growth, particularly from China, intra-BRICS trade and investment remain low, underscoring the challenges in deepening economic ties within the bloc. The modest achievements of BRICS can, to a significant extent, be ascribed to the varying and at times conflicting interests among its member states, especially between China

1) Andrew G. Ross, “Will BRICS Expansion Finally End Western Economic and Geopolitical Dominance?” *Geopolitical Monitor*, 26 January 2024. <https://www.geopoliticalmonitor.com/will-brics-expansion-finally-end-western-economic-and-geopolitical-dominance/>

2) Henley and Partners, *The BRICS Wealth Report: Challenging the Global Economic Order*, 30 January 2024. <https://www.henleyglobal.com/newsroom/press-releases/brics-wealth-report-2024>

3) Niccolo Conte, “Charted: Comparing the GDP of BRICS and the G7 Countries,” *Visual Capitalist*, 23 October 2023. <https://www.visualcapitalist.com/charted-comparing-the-gdp-of-brics-and-the-g7-countries/>

and India. These two countries have experienced historical border disputes, with their relationship notably deteriorating after the Doklam standoff in 2017 and the escalation of tensions in Ladakh beginning in May 2020.

The 2023 BRICS summit gained prominence due to the expected expansion, driven by China and Russia as a strategic effort to increase their political sway against rising U.S. tensions, aiming to make BRICS a key counter to Western dominance towards a multipolar world. In contrast, India approached the expansion cautiously, mindful of its growing alliances with the U.S. and Europe. Without a doubt, the expansion of BRICS introduces further divergences in the foreign policies of its members, complicating efforts to achieve consensus and potentially diminish the group's effectiveness. Without a clear, shared purpose among the original five members, this enlargement risks exacerbating issues of internal cohesion.

### ***Expanded BRICS and India***

At the Johannesburg summit, India consistently rejected Pakistan's application due to the longstanding tensions between the two nations. India's preference leaned towards adding "strategic partners" that would align with its economic and development priorities.<sup>4</sup> Indian officials also sought a consensus on criteria that would bar nations under international sanctions from membership, a stance that could effectively exclude countries such as Iran. Furthermore, India's Prime Minister, Narendra Modi, championed the introduction of a minimum per capita GDP threshold for membership, a proposal that led to intensive negotiations at the summit.<sup>5</sup> India's careful positioning aimed to prevent BRICS from being leveraged for influence by China.<sup>6</sup>

Yet, all the new BRICS members are partners in China's Belt and Road Initiative (BRI), highlighting China's strategic expansion into the Middle East, including collaborations with both the Gulf Cooperation Council countries and Iran. Countries like Saudi Arabia, UAE, and Iran which maintain significant trade and investment relationships with India and are deemed its 'strategic partners,' present a complex strategic situation. Given the inclination of these regional allies towards China, the expansion of BRICS appears less advantageous for India.

4) Rezaul H. Laskar, "At crucial Brics meet, India focuses on inclusion of partners in expanded Brics," *Hindustan Times*. <https://www.hindustantimes.com/india-news/india-takes-lead-in-forging-consensus-on-expansion-criteria-for-brics-grouping-and-selection-of-new-members-101692777695081.html>

5) Carien du Plessis and Krishn Kaushik, "BRICS expansion faces eleventh hour hurdle as divisions persist," *Reuters*, 24 August 2023. <https://www.reuters.com/world/brics-leaders-weigh-expansion-criteria-with-blocs-future-balance-2023-08-23/>

6) Ankit Tiwari, "India's hesitation as China pushes for BRICS expansion," *Lowy Institute*, 22 August 2023. <https://www.lowyinstitute.org/the-interpreter/india-s-hesitation-china-pushes-brics-expansion>

Notably, Saudi Arabia and the UAE stand out as China’s major global trade and investment partners under the BRI, with their trade volumes substantially exceeding those with India. For example, bilateral trade between China and Saudi Arabia reached \$77.7 billion, compared to the Indo-Saudi trade at \$34.27 billion, which is less than half.<sup>7</sup> Moreover, in the first half of 2023, among 45 countries benefiting from Chinese financing and investment, Saudi Arabia led in construction volume with \$3.8 billion, followed by Tanzania at \$2.8 billion, and the UAE at \$1.2 billion. In recent years, there is an increasing focus in both countries on diversifying their trade with China beyond oil, encompassing cooperation in the security and technology sectors.<sup>8</sup>

The dynamics across the Persian Gulf illustrate a complex scenario where China’s role is pivotal. By continuing oil purchases in defiance of U.S. sanctions, China has become Iran’s top oil importer, serving as a crucial economic support, especially significant after the U.S. withdrawal from the nuclear deal in 2018 and the re-imposition of stringent sanctions. In 2023, Iran’s oil exports reportedly hit record highs, with a considerable share of this increase linked to an expanded trading relationship with China.<sup>9</sup> Between 2018 and 2022, China’s contributions to Iran totaled \$618 million, mainly directed toward the construction industry, playing a crucial role in supporting the Iranian economy.<sup>10</sup>

In March 2021, Iran and China entered into a 25-year strategic cooperation agreement, encompassing significant Chinese investments in Iran’s energy and infrastructure sectors, alongside military cooperation, despite both facing U.S. sanctions.<sup>11</sup> Iran, facing isolation due to its confrontational approach and various international violations, has been seeking closer ties with China. Beijing sees this relationship as an opportunity to engage with Iran, recognizing the economic challenges it faces, and to foster collaboration with a government that shares some of its governance characteristics. This partnership helps China enhance its strategic influence.

7) “China/Saudi Arabia,” Observatory of Economic Complexity (OEC), 2022; <https://oec.world/en/profile/bilateral-country/chn/partner/sau>; “India/Saudi Arabia,” OEC, 2022, <https://oec.world/en/profile/bilateral-country/ind/partner/sau>

8) Dayan Abou Tine, “Saudi Arabia’s trade surplus with China soars by 257% in September,” *Arab News*, 27 November 2023. <https://www.arabnews.com/node/2416091/business-economy>

9) Congressional Research Service, Iran’s Petroleum Exports to China and U.S. Sanctions, 28 February 2024. <https://crsreports.congress.gov/product/pdf/IN/IN12267>

10) Umud Shokri, “Obstacles and opportunities for closer Iranian-Chinese economic cooperation,” Middle East Institute, 23 June 2023. <https://www.mei.edu/publications/obstacles-and-opportunities-closer-iranian-chinese-economic-cooperation>

11) The Iran Primer, Iran’s Increasing Reliance on China, United States Institute of Peace, 1 August 2023. <https://iranprimer.usip.org/blog/2019/sep/11/irans-increasing-reliance-china>

### ***Beyond Expansion: India, Iran, and the China Equation in BRICS***

India's apprehension regarding its investments in the Chabahar port escalated following the China-Iran strategic agreement. New Delhi India feared that sanctions limiting its investments could inadvertently favor China. India's commitment to developing the Chabahar port, a linchpin for its strategic access to Afghanistan and Central Asia, commenced with a strategic partnership agreement with Iran in 2002. This commitment was further solidified in May 2016 when Iran, India, and Afghanistan signed a trilateral transit agreement to develop Chabahar into a key hub for trade and a gateway to Kabul and Central Asia.

The United States recognized the importance of the port for India's commerce and for providing Afghanistan with access to seaports, thereby exempting it from the sanctions imposed on Iran. Nonetheless, the collapse of Ashraf Ghani's government in Afghanistan in August 2021 cast a shadow over the project, introducing new uncertainties regarding the engagement of the Taliban-led government, which, although showing interest in maintaining some of the previous administration's projects, has changed the geopolitical dynamics. From India's perspective, the shift in Afghanistan's leadership potentially paves the way for increased Chinese investments. With China maintaining its embassy and actively engaging in discussions about trade, investment, and aid with the Taliban, the development of infrastructure linking Chabahar to Afghanistan, such as roads and railways, could fall within China's sphere of influence.

At a time when China's interest in Iranian ports and coastal infrastructure is increasing, Iran has been urging India to accelerate the development of the Shahid Beheshti terminal, managed by India Ports Global Limited, highlighting the evolving dynamics in the region. In January 2024, India and Iran signed a long-term agreement, effective for ten years with provisions for automatic renewals, replacing the initial agreement governing India's operations at the Shahid Beheshti terminal in Chabahar.<sup>12</sup> This crucial update was facilitated by the joint decision to remove the arbitration clause that involved foreign courts, which had been an obstacle to finalizing a durable agreement for the port.<sup>13</sup>

However, India's decision to forego commercial arbitration in foreign courts in favor of investment arbitration introduces a vulnerability to its investments in Chabahar. While the host state's consent cannot be withdrawn, disputes over India's investments in the port would fall under the jurisdiction of Iranian and Indian courts.

12) ET Online, "Iran says final agreement reached with India on Chabahar Port: Report," *Economic Times*, 15 January 2024. <https://economictimes.indiatimes.com/industry/transportation/shipping/-/transport/iran-says-final-agreement-reached-with-india-on-chabahar-port-report/articleshow/106863677.cms>

13) Kallol Bhattacharjee, "India and Iran drop foreign arbitration clause in Chabahar port issue," *The Hindu*, 25 August 2023. <https://www.thehindu.com/news/national/india-and-iran-drop-foreign-court-arbitration-for-chabahar-port/article67234071.ece>

This is because “national law is part of the applicable law in investment arbitration, and national courts are authorized to interpret and apply national law,”<sup>14</sup> leading to potential legal complexities. Scholars critique investment arbitration for its lack of legitimacy, attributing this to “the impermanent nature of the tribunals chosen to decide disputes as well as the perceived potential for arbitrators to have conflicts of interest.”<sup>15</sup>

It is pertinent to note here that this development occurred simultaneously with the BRICS bloc’s decision to expand its membership, including Iran among five other new entrants, highlighting a period of significant geopolitical shifts. Eager to counter China’s influence in Iran and lacking oil trade due to sanctions, India viewed this as a step to strengthen India-Iran commercial ties. Yet, this leaves India without legal recourse in disputes, whether from restricted investments or other bilateral disagreements. Additionally, while it remains speculative, Iran could potentially use the prospect of closer ties with China as a strategic bargaining chip against India, as state decisions of this nature tend to unfold subtly and gradually. Indian policymakers may have overlooked that maintaining commercial or political relations is more advantageous for Iran, enhancing its international stature by associating with a democratic and stable nation.

Iran is pressing India to boost its investments in Chabahar, particularly emphasizing the need to expedite the development of the Chabahar port and to complete the Chabahar-Zahedan railway line, with less than 200km left to finish. India’s reluctance is due to concerns about partnering with a construction firm linked to the Islamic Revolutionary Guard Corps, which faces U.S. sanctions.<sup>16</sup> Given India’s strengthening ties with the U.S. across diplomatic, military, and economic spheres, it is highly unlikely that India would choose to defy U.S. sanctions, even at the cost of diminishing its involvement in Chabahar, potentially benefiting China.

Chabahar port comprises two separate ports: Shahid Beheshti, where India’s investments are focused and which is intended to become a regional hub, and Shahid Kalantari, a traffic port developed in the 1980s with potential for further expansion and modernization. In early 2023, Hellenic Shipping reported a logistical shift: Chinese vessels, formerly docking at Bandar Abbas, started unloading their cargo there for subsequent transfer to Chabahar,<sup>17</sup> likely via smaller ships to Shahid

14) Aniruddha Rajput, “National Courts as Actors in Investment Arbitration,” in Catharine Titi (ed.), *Public Actors in International Investment Law* (Switzerland: Springer Nature), [https://link.springer.com/chapter/10.1007/978-3-030-58916-5\\_3](https://link.springer.com/chapter/10.1007/978-3-030-58916-5_3)

15) Maria Laura Marceddu and Pietro Ortolani, “What Is Wrong with Investment Arbitration? Evidence from a Set of Behavioural Experiments,” *European Journal of International Law*, Vol. 31, No. 2 (September 2020): p. 405.

16) Financial Tribune, “India Allocates Just Over \$12m to Development of Chabahar in 2023-24 Budget,” 5 February 2023. <https://financialtribune.com/articles/domestic-economy/116979/india-allocates-just-over-12m-to-development-of-chabahar-in-2023-24>

17) Hellenic Shipping, “China launches direct shipping line to Iran’s Chabahar port,” 3 January 2023. <https://www.hellenicshippingnews.com/china-launches-direct-shipping-line-to-irans-chabahar-port/>



Kalantari port. This change suggests a strategic adjustment in the region's logistics, potentially favouring China over India.

### *Iran in BRICS: Challenges and Prospects for India*

The BRICS bloc, already perceived as China-dominated, sees its dynamics further complicated with the inclusion of Iran, underscoring Beijing and Moscow's intent to forge BRICS as a geopolitical counterbalance to the Western alliance. Iran's growing estrangement from the West, exacerbated by stalled nuclear negotiations, its support for Russia in the Ukraine conflict, and its suppression of pro-democracy protests, aligns with the thinking and interests of China and Russia. The Ukraine crisis has notably strengthened military collaboration between Russia and Iran, highlighted by Iran's provision of unmanned combat aerial vehicles to Russia.

India is in a precarious position within this evolving framework. Its strengthening ties with the West and concerted efforts to improve relations with the United States over the past two decades contrast with its association with a bloc that includes Iran, presenting a discordant image. The risk of India being inadvertently involved in decisions that could aid Iran in bypassing sanctions is a concern, particularly given Iran's antagonistic actions in the Middle East, especially against Israel, a key regional ally of India, through its proxy wars.

Iran's inclusion in BRICS also raises questions about the bloc's economic coherence. Iran's current economic and geopolitical stance offers limited value to BRICS' economic ambitions and its role as a stabilizing force in global affairs. In addition, Iran brings controversy into BRICS, given its label by many as a leading state sponsor of terrorism. The Islamic Republic's engagement in regional conflicts through proxies, targeting both a BRICS member, Saudi Arabia, and U.S. forces, contradicts the values upheld by BRICS.<sup>18</sup> India finds itself in a challenging situation, as its involvement could be interpreted as indirectly endorsing Iran's controversial actions. Such a perception might further complicate India's relations with the U.S., Israel, and the broader Western community, raising questions about its commitment to global peace.

Challenges notwithstanding, External Affairs Minister S. Jaishankar's January 2023 visit to Tehran, which secured the Chabahar deal, reflects India's strategic depth. Opting for investment arbitration indicates India's broader strategic intent, possibly to gain leverage in domestic politics where the ruling Bhartiya Janta Party (BJP) aims to increase sway, as in the Shia-majority areas of Jammu and Kashmir.<sup>19</sup> This nuanced

18) Seth G. Jones et al., "The Iranian and Houthi War against Saudi Arabia," CSIS Briefs, December 2021.

<https://www.csis.org/analysis/iranian-and-houthi-war-against-saudi-arabia>

19) See K.P. Nayar, "Jaishankar's visit to Iran and playing the long game," *National Herald*, 19 January 2024.

use of Iran's 'structural power' suggests the BJP's tactical play to bolster its regional influence, highlighting the interplay between domestic factors and foreign policy.

### *Conclusion*

Iran's BRICS membership complicates India's strategic stance, potentially boosting China's influence and aligning new members closer to China through the Belt and Road Initiative (BRI). This realignment and existing India-China border tensions could marginalize India in BRICS. In addition, China's involvement in Iran's infrastructure projects may limit India's investment prospects, especially given India's adherence to sanctions affecting its competitiveness in Iran. The Islamic Republic's inclusion in BRICS poses a risk of the bloc being perceived as anti-Western amidst global tensions, complicating India's efforts to strengthen ties with the U.S. and maintain relationships with allies like Israel. India must navigate the challenge of not aiding Iran in sanctions evasion or alienating regional partners.

Furthermore, leveraging Iran's influence poses risks for India, especially with Iran's proxy conflict history. This strategy, previously used to show solidarity with India's Muslim minority, now faces hurdles due to Iran's human rights issues, potentially affecting New Delhi's global standing. These dynamics underscore India's challenge to balance its relationship with Iran amidst shifting geopolitical landscapes and domestic considerations.