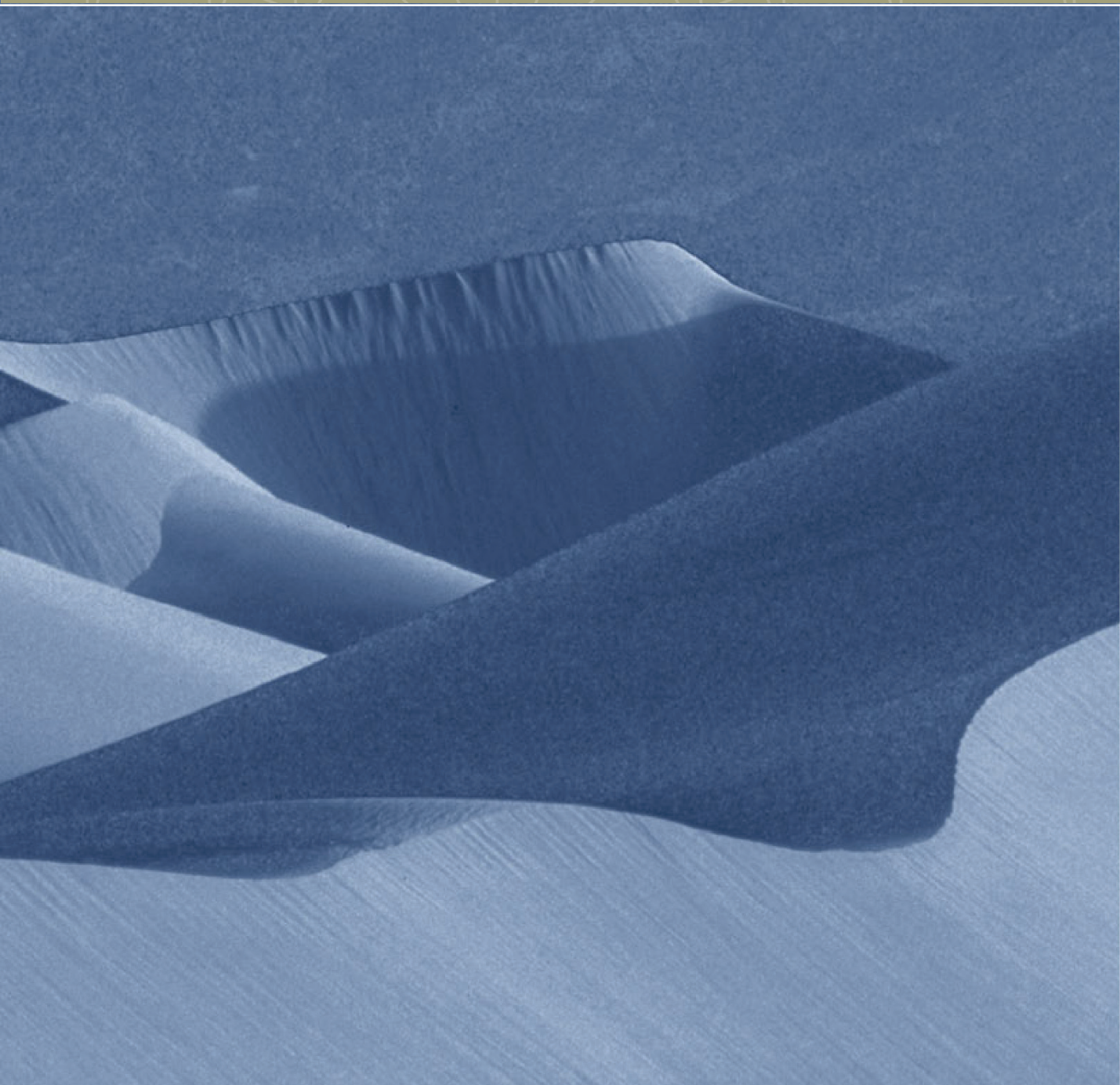


MIT CENTER FOR INTERNATIONAL STUDIES



Persian Gulf Initiative

The U.S., India and the Gulf:
Convergence or Divergence in a Post-Iraq World

March 20-22, 2007



Center for International Studies
Massachusetts Institute of Technology

PERSIAN GULF INITIATIVE WORKSHOP REPORT

*The United States, India, and the Gulf:
Convergence or Divergence in a Post-Iraq World*

March 20-22, 2007

Highlights

- India has an under-appreciated role in the Gulf as a diplomatic, economic, and, in future, military presence. The dynamics of the Gulf cannot be understood without accounting for both American and Indian interests.
- The United States, the Gulf Cooperation Council (GCC) states, and India have strong shared interests in security of energy supply and in regional economic integration.
- Disagreements about how to deal with Iran pose an area of serious divergence, with the US considering military action, the GCC attempting to balance the Iranian threat but skeptical of military strikes, and India maintaining a military and diplomatic relationship with Iran.
- India is unlikely to be the close strategic partner that some in the United States expect it to be. India's interests in the Gulf are not identical to America's, as India pursues its own regional strategies. This divergence has the potential to undermine important aspects of Indo-American bilateral relations.
- A future security architecture for the Gulf could take advantage of shared Indian, American, and GCC interests in energy security to maintain safe transit of oil and natural gas, and to enhance political stability in the region.

Foreword

The war in Iraq has several long-term implications that we are only beginning to glimpse, and among them is the question of US military commitments to police and protect the Arab states in the Persian Gulf, as well as the sea lanes for shipping oil. At the same time, the oil-producing states of the Gulf increasingly seek markets and other forms of cooperation in Asia. Japan and China have been major petroleum customers of the major Gulf states, for example, and other Asian states also are looking to the Gulf region for energy supply. Prominent among these states is India, which not only is a major importer of Gulf petroleum, but has been the font of labor migration to the Gulf states numbering in the millions. India and Pakistan both have centuries-old cultural, social, and political relationships in the Gulf as well. And India has a growing military, including a navy that can project power into the Gulf.

When Barbara Bodine and I began discussing this important confluence of events, interests, and change, we discovered that relatively little research and writing had appeared in the United States on the complex of issues involved. The significance seemed only too apparent: the United States, stung by its catastrophic invasion of Iraq, might be viewed in the near future by Arab Gulf elites as an unreliable partner in securing their oil-producing, refining, and shipping activities. Where might these states then turn to for protection? India seems a likely candidate, given its ties to the Gulf and its growing military and more assertive global role. It was this triangular set of relationships we thought worth exploring.

We convened a workshop in March 2007 at MIT with a number of experts on energy security, the Gulf, and South Asia. One of the main purposes of the Persian Gulf Initiative – the project at the Center for International Studies under which the workshop was convened – has always been to give voice to knowledgeable actors from the region, and several such experts participated in this workshop. The result was a useful, well-informed set of discussions that sheds light on these complex ties and future prospects. To the participants of the workshop, listed on the following two pages, we express our gratitude.

This report was written by Paul Staniland, Ph.D. candidate in political science at MIT, who served as the very able rapporteur of the workshop. The workshop was made possible by a generous gift from an MIT alumni family.

-- *John Tirman*

Introduction

The Persian Gulf Initiative workshop “The United States, India, and the Gulf: Convergence or Divergence in a post-Iraq World?” convened experts on India, the states of the Persian Gulf, and American policy to discuss the interests, perceptions, and policies of these countries. The resulting discussion focused on a set of important dynamics involving the United States, India, and the Gulf that are often overlooked in an American foreign policy community focused on the current conflict in Iraq. The relationship between these actors, as well as countries like Pakistan, Iraq, and China, will be one of the strategic pivots on which US foreign policy rests when dealing with energy security, nuclear proliferation, and trade. This discussion benefited greatly from the wide geographic and substantive diversity of its participants, including academics, current and former policymakers, and members of the business community. This allowed examination of the complex cultural, economic, and political links tying together the United States, India, and the Gulf.

We summarize the workshop highlights, findings, and suggestions for future study in four sections below: *Overview and Context*, *The Gulf Looks East*, *India Looks West*, and *Convergence or Divergence?* While there were areas of disagreements among the participants, there was consensus that India is unlikely to be the close American strategic partner that some in the US imagine it will be – India, like the Gulf states, has its own interests that are not identical with American interests. However, there is much room for cooperation, particularly on issues of energy security, economic integration, and regional stabilization between India, the US, and the Gulf states.

Participants

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Gregory Gause	University of Vermont
Sumit Ganguly	Indiana University
Jamal Khashoggi	Advisor to HRH Prince Turki Al Faisal, Saudi Arabia
Michael Kraig	Stanley Foundation
John Limbert	US Naval Academy
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1 Overview and Context

Any analysis of the United States, India, and the Gulf must begin by examining the overall history and interests of the key players. This panel focused on examining Indian and American links to and interests in the Persian Gulf. India has an array of historical ties to the Gulf states reaching back centuries, and currently solidified by both the presence of a large Indian diaspora in the Gulf states and by growing Indian reliance on oil and natural gas from Persian Gulf states. American interests center on energy security and the behavior of Iran and Iraq. The current war in Iraq and the possibility of Iranian nuclear proliferation have heightened both the importance of the region to the US and also the potential for regional instability. The US and India share a strong common interest in maintaining a stable supply of oil and gas from the Gulf, while there are differences over the appropriate policies toward Iran and Iraq. Iran in particular stands out as a potential point of disagreement and policy conflict between the US and India.

The Importance of the Gulf to India

India has a long-standing historical relationship with the states of the Persian Gulf stretching back to ancient Rome. Commerce along the Silk Road and maritime trade routes tied together the Middle East and South Asia even as political dynamics radically changed. These cultural ties have endured over time as millions of Indians have come to

work in the states of the Gulf Cooperation Council (GCC),¹ creating human links between these countries and societies. The Indian diaspora in the Gulf brings Indian attention to this region – the diaspora has political salience in Indian domestic politics and has been a focus of military exercises aimed at evacuating this population in the event of emergencies. However, the diaspora has been treated poorly by many GCC countries and lacks a significant political voice. This vulnerability, while bringing India to the Gulf, also limits the willingness of the Indian government to actively pressure the Gulf states over political and human rights issues. This relationship may change over time if multi-generational Indian families become more integrated into the political life of the GCC states, but this would be a long-term outcome.

The major political and economic interest India has in the Gulf is energy security. India's domestic energy reserves are limited, while the Indian economy has been growing rapidly since the early 1990s of approximately 8 percent annually. Economic liberalization policies enacted in 1991 have fueled sustained Indian economic growth. This has in turn created increased demand for oil and natural gas that can only be met by importing from abroad. India's oil reserves are only roughly 6 billion barrels, and production has peaked (by comparison, Saudi Arabia holds reserves of approximately 260 billion barrels).

The Gulf is both the world's primary source of oil reserves and has an extremely favorable geographic location for bringing these reserves to India. India's largest source of oil in the Gulf is Saudi Arabia, followed by Iran, Iraq, and Kuwait. Nigeria is an important non-Gulf supply source. India has also begun actively engaging in trade of Liquid Natural Gas (LNG), primarily from Qatar, which is the world's premier supplier of LNG. Energy ties with Iran are discussed below. Not only does India engage in energy trade with the Gulf states, but there also been increasing trade and investment ties between these regions.

This set of interests in the Gulf has led to a set of Indian policy positions emphasizing stability. Both the Indian diaspora and energy supply stability are threatened by political unrest, military conflict, and overall uncertainty. This has led India to view the recent American military posture in the region with alarm because of its destabilizing effects. The invasion of Iraq and confrontation with Iran (discussed below) both undermine the stability India seeks in the Persian Gulf. At the same time, the Indian Navy has developed an interest in being able to project its power into the Gulf, in cooperation with other navies, as a mechanism for protecting sea lanes of communication that transport oil from the Gulf to India. The potential vulnerability of the Strait of Hormuz is of significant concern since India is highly sensitive to supply

¹ The GCC's members are Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates. See its web site for statistics, charter, etc.: http://www.gcc-sg.org/index_e.html.

shocks. Naval force projection will take on increasing importance over time to protect these crucial diaspora and, especially, energy interests.

The Importance of the Gulf to the United States

American involvement in the Persian Gulf took on great significance in the immediate aftermath of the Second World War. Viewing oil from Iran, Iraq, and the GCC states as a strategically crucial resource, the US has traditionally looked to maintain stability and a regional balance of power. American policy has centered on a refusal to allow any single power to dominate the Gulf. After the war, the US was closely aligned with Saudi Arabia and the British-dominated Iran. However, the US- and British-engineered coup in 1953 that deposed Iran's Prime Minister, Mohammed Mossadeq, increased suspicion of Western influence in the region, with dramatic future consequences. The 1958 military coup d'état in Iraq that overthrew the British-installed Hashemite rulers signaled another break with the Western-dominated order in the region and increased tension with Iraq.

The 1973 Arab-Israeli war marked the emergence of OPEC as a key political and economic actor. The oil shock of 1973 clearly indicated that the oil producers could hurt the US and its allies. However, American security policy in the region during the 1970s was able to rest on the "dual pillars" of Saudi Arabia and Iran.

This regional security arrangement was shattered by the 1979 Iranian Revolution, which removed the Shah from power and ultimately resulted in a radical Iranian government. The revolution triggered a period of increasing instability as America and Saudi Arabia sought to hold Iranian influence at bay. This confrontation led to the "tanker war" of the 1980s, and US and GCC support for Iraq in the 1980-1988 Iran-Iraq War. After the war, Iraq adopted an aggressive posture (in part linked to oil prices and production quotas) that led to the invasion of Kuwait and the subsequent 1991 Gulf War. The Gulf War led to the long-term introduction of American forces into Saudi Arabia and other Gulf states as part of a dual containment strategy aimed at limiting Iranian and Iraqi influence in the region, while maintaining the supply of oil to an increasingly dependent American economy. The 2003 US invasion of Iraq and consequent occupation has further deepened American involvement in the region

Growing US-Indian Ties

The United States has identified India as a potential strategic partner to deal with both Asian and Middle Eastern security issues. The possibility of an Indo-American "nuclear deal" has raised expectations in both capitals that the US and India will form a strategic bloc to counter China and radical Islam. Cooperative naval exercises, arms sales, and political consultation are all signals of this relationship, as are fairly high levels of pro-American sentiment in the Indian public, as measured by opinion polls. Both states want a stable Afghanistan without a Taliban presence and seek energy security from their dominant suppliers in the Gulf region. Thus there is much reason for the US and

India to cooperate on Gulf issues and other topics of common interest. If the details of the nuclear deal can be worked out, India and US will have reached a historic high in the nature and extent of their political ties.

India, the US, and Iran: Pipelines, Nuclear Weapons, and Policy Divergence

Despite this set of shared interests and a growing political alignment, India and the US have very different relations with a crucial Gulf state, Iran. Since 1979, the US has actively pursued a containment policy against Iran and has grown increasingly alarmed about the possibility of an Iranian nuclear weapons capability. At present, the possibility of armed confrontation between the US and Iran has become a source of great concern, exacerbated by the US invasion of Iraq and Iranian involvement there. Many panelists were concerned that the Bush administration exaggerates Iranian power. The Iranian economy is weak, energy infrastructure underdeveloped, and corruption alleged to be rampant. The energy sector has been mismanaged since 1979, with negative effects on Iranian reserves, production capacity, and refining, with all the political implications of such poor performance. Badly-needed foreign investment has been largely blocked by a fragmented set of economic and political actors, including US sanctions. However, many American policymakers and commentators continue to see Iran as an emerging regional hegemon despite these many weaknesses in its political economy.

India, on the other hand, has a much closer relationship with Iran. Both share geopolitical interests in containing Pakistani power and in supporting the Northern Alliance in Afghanistan. India, while not actively in favor of an Iranian nuclear capacity, does not feel threatened by this possibility. Moreover, Iran is one of the largest energy suppliers in the world, its infrastructure challenges notwithstanding. India has begun to explore significant deals for access to Iranian natural gas. LNG exports from Bandar Abbas are one possibility, as is Indian support for the development of Iranian oilfields. There has also been some discussion of an offshore pipeline route from the UAE to India, though this remains a very distant option. Most significant is the possibility of a pipeline stretching from Iran through Pakistan to India that would transport natural gas. There are a huge number of obstacles to this deal, including agreements over price and transit fees among the three countries, and security concerns in eastern Iran and western Pakistan. However, the negotiations surrounding this deal have raised alarms in Washington, where there is fear such an arrangement would bolster the Iranian regime and thus undercut the American containment policy.

The Iranian-Indian pipeline is emerging as a major object of contention between the US and India that has potential to slow or complicate any Indo-American strategic alignment.

2 The Gulf Looks East

Just as India has interests in the Persian Gulf, the states of the GCC are thinking hard about their current and future interests with regard to India. They are also interested in shaping the broader Gulf political environment to maintain investment confidence and domestic political stability. India has a limited role to play in these efforts. Panelists discussed both the perception of India within the GCC and the GCC states' overall political and strategic worldviews.

How Gulf States View Their Security

The Gulf states perceive a mixture of external and internal threats to regime (*i.e.*, monarchical) stability. Often these threats are exaggerated as leaders blow perceived threats well out of proportion, but these perceptions nevertheless drive policy formation and need to be understood. The GCC worldview sees internal threats as being intimately linked to external events, with foreign powers able to mobilize domestic groups to challenge regime rule. Cross-border ties abound in the region, including tribal, ethnic, ideological, and religious/sectarian cleavages. These kinds of cross-border dynamics have been observed at various periods in Gulf history, including during the rise of Arab nationalism, the aftermath of the Iranian revolution, and the current tide of Salafi jihadism.

This strategic worldview thus identifies foreign manipulation of internal threats as the key security obstacle for regime survival. Outside conventional or nuclear threats are met by external balancing in the form of alliance with the United States, and a reliance on its security umbrella. Internal threats are met by a mixture of repression and compromise, while mixtures of these two are met by a combination of external alliance and internal policy adaptation.

The civil war in the wake of the US invasion and occupation of Iraq and the perceived rise of Iranian power have led to fears of regional destabilization along sectarian lines, as Shia groups press for power within Gulf monarchies backed by Iran, and Sunni Islamists radicalized by the Iraq war both clash with Shiites and pressure the GCC monarchies. Internal violence is thus seen as a possible result of broader regional and international dynamics.

Democratization is viewed with some skepticism and fear, and has become closely identified with the Bush administration – to the detriment of democratic development. Democracy prospectively could open space for domestic political contestation along tribal, ethnic, and religious lines within the GCC states that trigger fragmentation and unrest. This fear of democratization has been matched by a policy in some GCC states of actively increasing domestic dominance of state bureaucracies; policies like “Omanization” aim to reduce expatriate influence of the economics of the GCC states. In countries like UAE this gap between demographics and economic influence may lead to

future problems, particularly if foreigners attempt to mobilize politically. There is a belief, at least among ruling elites, that the Gulf monarchies are in touch with the desires of the population, and that formal democratization is largely unnecessary, in addition to being destabilizing.²

This strategic and political worldview has implications for perceptions of both the American and Indian security role in the Gulf. The US is seen as an extremely valuable ally against external threats – the GCC is simply too small and weak to deal with issues like the growth of the Iranian nuclear program. However, American policies in Iraq and in aggressively confronting Iran are viewed as generating worrisome internal threats to GCC regime stability. GCC states generally believe that the US needs to emphasize stability, as opposed to a “transformative” foreign policy in the region.

India is viewed as a complement to GCC policies. Its diaspora is not politically mobilized and thus not a current or potential threat to regime stability, India has a very limited military presence that centers on the possibility of naval deployments to maintain oil supply lines through Hormuz, and Indian foreign policy has avoided pushing for major domestic changes (though on balance India would prefer peaceful democratization). The ideal Gulf security arrangement, in GCC eyes, would have the US providing military power only as truly required, a delicate dialogue with Iran ultimately leading to rapprochement, and an Indian presence that emphasizes stability and economic engagement. The spillover from the Iraq war must be contained lest it feed internal instability throughout the region.

Gulf Views of Energy Mercantilism

India and China are making major efforts to achieve security of supply by “locking up” oil and gas reserves through deals done by national oil companies. Gulf suppliers, and other industry experts, view diversification of supply as the best route to supply security and are dubious of Indian and Chinese efforts to beat the market. Instead, they prefer an open international market where price signals are closely and fluidly linked to supply and demand conditions. In a world of high prices, this is a rational approach by supplier states and oil companies, who are well-served by this economic situation. There was thus a consensus among panelists that India and other developing markets are ill-served by competition for exclusive supply contracts in supplier countries; this competition is unnecessary and wasteful. Moreover, it can lead consumer countries into political arrangements with unsavory producer regimes like Sudan and Burma that undermine the moral basis of foreign policies. As a result, the Gulf view of Indian energy policy is that it should accept the international oil market as the best route to cheap and sustained security of supply.

² A number of these issues were taken up in detail in three Persian Gulf Initiative workshops. See *The Crisis of Governance in the Gulf: Legitimacy and Stability in a Dark Time* (2005), <http://web.mit.edu/cis/pdf/PGI%20Crisis%20of%20Governance%20106.pdf>.

Gulf Perceptions of India's Economic and Political Environment

Due to India's historical ties to the Gulf states, there is a significant degree of cultural comfort with India among Gulf business and political leaders. Many Gulf elites have spent time in India and thus are familiar with the Indian economic and political scene. This is an advantage that contributes to a strengthening relationship; moreover, India is not viewed as a threat of any real sort, offering the possibility of an interdependence based on mutual economic benefit and unsullied by political conflict and suspicion.

The GCC's economic interests center on creating employment in a face of a growing youth population. The oil industry is capital intensive and thus does not provide much employment relative to its share of GDP, meaning that there is need for economic diversification in order to provide for basic political stability. The GDP of the GCC countries remains very small, so there is need to improve sustainable economic growth over time as well – the region's reliance on oil must be broadened into new sectors and new investment portfolios. While the Gulf will provide a growing percentage of global oil production, the Gulf states remain apprehensive of oil price volatility. Abrupt or unexpected changes in oil prices can cause economic dislocation and increase political instability, and so the Gulf states' business community is looking to expand the sophistication and diversity of the GCC's economic environment.

In the face of these economic challenges, the growth of the Indian market has thus been welcomed as a location for investment capital from the Gulf, particularly in the post-9/11 "New Silk Road" trading environment. After 9/11, much Gulf capital came back to the region looking for safe, comfortable investments in the general area. A growth in business confidence over the past five years has further encouraged an interest in investing in and trading with India. India's intellectual capital is viewed as a crucial asset for encouraging knowledge- and technology-based economic growth and returns on investment. Indian growth suggests that Gulf investments will bear fruit, and there is faith in the stability of Indian legal and political institutions to provide a stable framework for economic exchange over time. While China is growing more rapidly, there is greater confidence in India's overall property rights protections and rule of law. This means that the GCC states see India as a long-run economic partner to be cultivated.

This interest in Gulf investment in India is complemented by an appreciation of the GCC's role in providing energy to India and other growing economies. A desire to maintain Gulf dominance in global oil production creates significant needs for further infrastructure expansion to maintain supply. India is seen as one of the most important markets for future energy purchases, and potentially also eventually as a source of foreign capital and investment within the GCC as Indian growth creates greater Indian involvement in overseas investment. As discussed below, however, the Gulf states (and others in the energy industry) view with skepticism Chinese and Indian efforts to "lock up" oil and gas supplies through national oil companies.

This overall view of India's economic promise means that the GCC is not pushing the country on sensitive political issues. Saudi Arabia in particular is pursuing a highly pragmatic approach to India. Saudi dialogue with India generally ignores salient Islamic topics like Kashmir in favor of building economic ties that can benefit both countries. While Pakistan remains an ally of the GCC countries, there is a strong desire to avoid having to choose between India and Pakistan due to the great potential for Gulf-India economic ties.

3 India Looks West

This panel examined the India's strategic posture with regard both to its overall security environment and to the Persian Gulf more specifically. India is emerging as a strategic actor with interests beyond South Asia and Indo-Pakistani relations; instead of this Cold War posture, India has been building ties with the United States, Australia, and Japan, among others, as part of a supra-regional strategy. In discussing India-Gulf relations, panelists focused in particular on Iran, an issue which was discussed to some extent above. Iran stands as a crucial security and energy actor in the Gulf that occupies much of the attention of the US, India, and the Gulf states.

India Emerges as a Strategic Power

A point that was repeatedly emphasized in discussion is the emergence of India as a state with a nascent strategic posture. During the Cold War, Indian strategy was generally focused on Pakistan and adopted a neutral, if rather Soviet-leaning stance, in the global superpower competition. India avoided a larger global role apart from the realm of rhetoric, eschewing alliances and interventions beyond South Asia. This military posture was matched by a generally protectionist economic system in which state regulation and intervention was privileged over market mechanisms. The combination of these foreign and domestic policies restricted India's international importance despite the country's massive size.

In recent years this strategic posture has changed. The end of the Cold War removed the Soviet Union as a reliable semi-ally, leaving India largely on its own on the international stage, particularly with the general dissipation of the Non-Aligned Movement. This dramatic transformation of the international scene was simultaneously paired with an internal economic crisis that put in doubt the entire political economy of the post-1945 state. A balance-of-payments problem in 1991 triggered significant economic liberalization, including reductions in state regulation, public ownership, and barriers to foreign investment.

The combination of these events thus led to increased economic openness and growth, and the need for a new strategic military/diplomatic posture. This had led to much

more international involvement, and a kind of self-sustaining cycle in which growing economic power has created more means for international engagement.

Why have India's core interests become as part of this broader strategic transformation? There are a number of imperatives driving Indian policy – weakening Pakistan and its influence in Afghanistan, hedging against China while growing closer with Western powers like the US, Australia, and Japan, maintaining energy security, and creating an international economic system that benefits India.

Some of these priorities are in accord with one another, while others may lie in tension with one another. In particular, and as discussed below, India's energy security interests can potentially conflict with some of its other interests in areas like engagement with the United States. In the realm of energy, India is pursuing several strategies. As mentioned briefly above, it is hoping to use its national oil companies to acquire rights to supply in major producer countries, and contracts for exploration and production. This would provide stake in upstream production. As noted earlier, many analysts are skeptical that this kind of strategy is preferable to dealing with the open oil market; the ability to actually lock up enough resources to reduce vulnerability to both price and supply shocks requires massive resources that are likely to be beyond the resources of any given state, much less a developing economy. Indian efforts in upstream investment have led to intense competition with China, particularly in Africa and Central Asia.

India is also trying to create a presence in the Gulf. The Indian Navy has aspirations towards building a robust blue-water capacity to allow power projection into the Gulf, and elsewhere in the Indian Ocean. This kind of military expansion can raise suspicions about India's future aims. To deal with these fears, India is holding joint exercises with smaller nations as a way of reassuring them about Indian intentions and to build partnerships with key producer states. India is also engaging in these kinds of exercises with other naval powers that have interests in the Gulf, like Japan and the US. India's navy is the service with the most capacity and current interest in power projection, which dovetails nicely with Indian concerns about energy supply shocks in the Persian Gulf. Japan in particular could emerge as an important partner concerned with both China and secure sea lanes.

India will also encourage greater economic integration among the GCC states and look to be involved in trade and investment. The problem from India's perspective is that investment and service contracts will involve competition with potentially more sophisticated Western and indigenous firms, meaning that a very robust Indian economic presence in the GCC states may not arise for some time to come.

Finally, India views the Gulf as a possible source of Islamic radicalization among its Muslim diaspora population. The influence of extremist Islamist ideologies in the Gulf

states may influence Indian Muslims who could then bring this strain of thought back to India. Indian intelligence is apparently monitoring this dynamic, which creates yet another tie binding India to the Gulf region. Thus far Indian Muslims have proven largely resistant to the lures of radical Islam, but there are nevertheless some supporters, and this could become a major issue in the future.

Iran's Internal Struggles and External Links with India

We can now focus more intensely on Iran and the Indo-Iranian relationship. Much of the discussion by panelists focused on Iran, with its centrality to Indian, American, and GCC policy in the Gulf. The relationship between Iran and the Gulf is obviously complex. Cross-border ties pull together the Persian, Arab, and Indian cultural milieus, with relationships dating back centuries. This means that it is hard to analyze any of the three political environments without exploring their intersection.

During the Shah's reign, Iran's ties with the Gulf were cordial but distant, with occasional flashpoints like the seizure of islands in 1971. Iran stood with Saudi Arabia as a pillar of American strategic posture in the region and a major oil supplier to the West. However, with the overthrow of the Shah things changed dramatically. The uncertainty surrounding the revolution bred increased uncertainty that turned into active hostility between Iran and the Gulf states once Khomeini consolidated power and adopted an aggressive, revisionist policy towards the region. The Iran-Iraq war saw the GCC states actively backing Saddam Hussein's Iraq against the Iranian regime. Despite gratuitous provocations and poor foreign policy decisions, Iran never adopted policies actively against the regime's survival interests, however. The Iran-Iraq war eventually came to a close and Iranian foreign policy backed down from its most aggressive pinnacle.

At present, Iranian foreign policy finds itself caught between two competing worldviews. The first is a rigid and radical Islamist ideology that is often used as a tool of public mobilization by extremist clerics and politicians. The other is a more pragmatic approach emphasizing national interests and holding out the possibility of compromise, though this compromise is likely to come in the form of a hard bargain. These ideologies are currently competing in a context of factional in-fighting in Iran, with great uncertainty about the ultimate outcomes of the competition. It is further unclear what American policy will be towards Iran – as indicated above, many US policymakers view Iran as a grave threat despite its significant internal weaknesses.

Into this volatile mix enters India, which, as mentioned above in the natural gas pipeline context, has a set of political and economic ties with Iran. These links extend beyond pipelines to intelligence and military cooperation. While India does care about energy, there are other sources that it relies heavily on, like Saudi Arabia. Rather than being solely about oil and gas, Indian interest in cooperation with Iran stems from its geopolitical interests in the broader region. Defense and intelligence collaboration,

including joint exercises and apparently the stationing of some Indian intelligence personnel in Iran, are indicators of this relationship.

Iran is an attractive partner to India in large part because of its ability to influence events in Afghanistan and Central Asia, where India has extensive interests. Moreover, some degree of cooperation with Iran is a way for India to signal its autonomy from American influence, which has been a matter of concern both in domestic politics and among policymakers. India has no interest in being dragged into American policies in the Gulf. As things stand, India is in an excellent position in the region – it is on good terms with all of the major states, including Iran, and faces no greater energy access challenges than anyone else.

However, this pleasant equilibrium may not hold as American policymakers and politicians grow concerned about Indo-Iranian ties. This has become a growing issue of contention in debates over the India-US nuclear deal, with members of Congress indicating their concern that India could, perhaps inadvertently, transfer nuclear knowledge to Iran, or provide it with diplomatic cover while the US and some of its European allies try to pressure Iran over its nuclear program. India's attempts to balance all of its various policies could fail if a stark enough choice is faced. This is an area with great potential for future US-Indian disagreement, and is a warning to those who believe India and the US will become close strategic allies. The two countries share many interests in common, but certainly not all. The example of the Dubai ports deal shows that Congress and the media can become mobilized over foreign affairs in somewhat unpredictable and disruptive ways. Panelists also noted that Indian diplomats and politicians have not handled the issue of Indo-Iranian ties with sufficient sophistication, leading to the creation of counterproductive misperceptions, and leaving doubt about India's ultimate strategic interests.

4 Convergence or Divergence?

With this background, panelists then considered the areas of convergence and divergence between the US, India, and the GCC states. Four related issues were identified as the crucial areas in which these three sets of actors will be interacting over time. There is strong convergence in the areas of energy security and economic integration, divergence in views of dealing with Iran, and potential for convergence in policies toward the Gulf's future security architecture. The role of India in stabilizing the Gulf could be significant, but there are limits to Indian interest and ability to assume this responsibility. The most likely scenario will involve a limited but important Indian naval and diplomatic position in the Gulf.

Energy

The US, India, and the GCC states all have extremely strong interest in stable production and transport of oil and natural gas.

The GCC states rely very heavily on energy exports for their economic survival – while there has been economic diversification, countries like Kuwait and Saudi Arabia remain dependent on their energy reserves. This energy supply is of particular importance because of the domestic political context, in which sustained prosperity is crucial for the Gulf monarchies' political survival. The GCC states are focused on maintaining sufficient production capacity in order to meet expected future demand increases from both developed and developing markets as non-OPEC and non-Gulf oil reserves decrease as a proportion of global supply. This reliance on oil production for pressing economic and political reasons leads the GCC states to put a high premium on regional stability, with the prospect of violence or political unrest near or within the GCC states viewed with great anxiety. The Strait of Hormuz in particular is a route through which an enormous amount of oil passes and that thus much be kept free of disruption.

The US and India obviously share this interest in secure energy supply. Both the US and its key Western allies rely heavily on Gulf oil to keep their economies running, and past experiences with oil shocks remain vivid in policymakers' minds. Natural gas, both in the form of pipelines and LNG, will also grow in importance over time, creating needs for political stability in the region that facilitates both the long-term investments necessary for natural gas infrastructure (particularly intensely capital-intensive LNG facilities) and pipeline safety. American aims are less stability-oriented than those of the GCC states (in particular, US interest in regime change in Iran and Iraq), but energy security is nevertheless one of the main American interests in the Gulf.

India's rapid economic growth has created sustained demand for oil imports from the Gulf, as well as future growth in natural gas demand. India is vulnerable to even relatively short supply interruptions since it has limited domestic reserves and an economy that is at present running on tight resource supplies. This tautness in the Indian energy supply-demand relationship means that supply shocks are more far worrisome than price risk, and stability has become the key focus of Indian energy concerns in the Gulf.

Interests thus generally line up across the US, India, and the GCC states. Despite disagreements on other, even related, issues, there is strong consensus that the Strait of Hormuz must remain open, there cannot be significant political unrest within the GCC states, and that production infrastructure must be expanded enough to provide increased capacity to meet growing demand. Much productive cooperation can result from convergence of interests.

Trade and Finance Flows

Another area of convergence comes in the area of economic integration. While energy remains the paramount economic link between the GCC, US, and India, there is also a growing degree of trade in goods and services, and in foreign investment. These non-energy economic ties present the possibility of generating interdependence in a less volatile and less politically sensitive realm than that of oil and gas. The GCC states have been actively trying to diversify their economy to escape some of the vagaries of the energy market. This effort has involved a wide variety of initiatives that vary from country to country, but include policies aimed at encouraging foreign investment, tourism, the creation of indigenous services and manufacturing industries, and investments in education. It remains unclear how successful these policies will be, but certainly there has been progress in reducing the reliance on oil and gas within some key Gulf economies.

This economic liberalization and diversification presents an opportunity for American investors in the Gulf states, which can bring the US into the Gulf in a new way distinct from energy. In a different direction, Gulf investors' desire to find new markets and opportunities is leading them toward India's growing economy, which needs foreign capital to sustain its expansion. As mentioned above, there is a comfort with and respect for India's legal and political institutions that encourages investment from the Gulf. Indian investment also has interest in Gulf markets, though it remains at a disadvantage due to the greater wealth and sophistication of Gulf and Western competitors. Economic interaction can build a less politically volatile kind of interdependence that ties together the US, the Gulf, and India.

Iran

An area of clear divergence, as should be clear from discussions above, is Iran. Iran's future trajectory remains uncertain, but its bid for a nuclear weapons program has raised concern in the US, Europe, and the Gulf. The US is explicitly considering the use of military force against Iran, likely in the form of airstrikes on major nuclear facilities. Given the importance of Iran in the Iraqi civil war, such a military action could trigger intense regional instability and violence. This kind of conflict may have repercussions for the survival and vitality of key Gulf monarchies that control much of the world's oil supply. Despite these risks, some American policymakers seem willing to accept them in return for delaying the Iranian nuclear program.

This view is not shared by the GCC states or, especially, India. The GCC states fear Iranian power, a suspicion that has taken on the form of proxy war in the 1980s and tensions throughout the post-revolutionary period. The rise of Shia assertiveness in the Gulf is identified by many with the rise of Iranian power, and thus this relationship involves both internal and external security threats. The Gulf states are looking to maintain a balance of power that tilts in their favor, but Iran's nuclear program and ability to benefit from the collapse of Iraq are calling this balance into question. There is

further concern that Iranian nuclear weapons would spur a regional proliferation dynamic. However, the GCC does not want the US to take military action against Iran, fearing that this would trigger even worse violence, including domestic unrest along sectarian lines that threatens regime survival among the Gulf monarchies. Diplomacy and containment are the preferred options for dealing with Iranian power.

India has even less interest in military action against Iran. Both policymaking elites and the public are opposed to Iranian nuclear weapon development. But India has a relationship with Iran that reflects India's interests in energy, Afghanistan, and dealing with Pakistan. In many ways Iran is a natural partner for India, and this means that India will be unlikely to support air strikes. Diplomacy will be the favored tool for dealing with the Iranian nuclear question. This may put India at odds with the US, or at least in the position of not fully supporting American policy. This does not mean that India will line up with Iran – India has interest in close ties with Saudi Arabia and other GCC states, and its Gulf diaspora overwhelmingly lives in the Arab monarchies – but instead that it is unrealistic to expect that India will fall into place as an un-questioning American ally in this issue. This imperative is heightened by domestic political needs for Indian politicians to signal their independence and autonomy in the international sphere. Too close an association with the US can put Indian leaders at domestic risk.

The divergence of interests over Iran will be one of the most important dynamics going forward in the Gulf, in part because its repercussions extend well beyond the Gulf. Indo-American relations broadly defined could be at risk over the issue, especially if Indian policymakers continue to mishandle their explanations of India's ties to Iran, the broader American posture in the world will be influenced by whether it goes to war with Iran, and the regional conflict has clear implications for the supply of oil and gas that the world grows ever more reliant on.

Regional Security Architecture

Thus there are an array of issues facing the US, the GCC states, and India, some of which offer clear convergence and mutual interests, while others are the site of strong disagreements. Panelists suggested a variety of possible Indian roles in the Gulf as a stabilizing force. While there is some possibility that India could become involved in mediating the Iraqi and Arab-Palestinian conflicts, it is not clear that India has much interest in these daunting tasks. India is also not likely to replace the American military presence in the Gulf, which is likely to remain robust, particularly in the naval realm.

A more likely scenario that accords with American, Indian, and GCC states' interests involves the introduction of an Indian naval presence into the Gulf in cooperation with the US. This military role would be aimed at maintaining security of energy transport through the Gulf and Indian Ocean. It would also serve a broader political role by bringing in a more neutral external power that is viewed with respect by all of the key actors. India has the potential to act as an intermediary between the US and Iran, a role

that can also be taken up by the GCC states. This security architecture would center around regional stability and clear-eyed compromise. Such an arrangement is unlikely to fully satisfy those who want to see the US and India bound at the strategic hip, or those who hope that American influence in the Gulf can be removed. Instead, the GCC states, the US, and India have the potential to construct a limited but useful partnership to keep oil flowing, an uneasy peace enduring between the US and Iran, and growing economic integration.

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