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## Strategic Partnership for Economic Development: India's New 'Inclusive Trade Diplomacy'

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### Abstract

Development being critically dependent upon the import of crude oil, India entered into regional trade agreements with West Asian states, particularly Iran. India signed RTA with Iran because its terms of trade seemed advantageous to others. Besides, a curious trend was observed that a rising GDP was related to a growing total trade growth rate between India- Iran. At present, India's fallen GDP coincides with India's reduced oil import from Iran. Due to the Iranian nuclear crisis, India has been under immense external pressure to halt oil trade Iran which can, consequently, stifle development. India's response has revealed its unique trade diplomacy-'inclusive alignment', especially useful in troubled political climates. Inclusive alignment refers to alignment to both powers. Thereby, it does not commit oneself to a singular bloc. Thereby, one could maintain one's neutrality and balance against the US-led sanctions against Iran, and continue Iranian oil imports.

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### 1. Introduction

Unquestionably, at the core of India's economic development is oil. Oil is a critical component not only for economic growth or Gross Domestic Product (GDP) but also for economic development- it fuels important economic sectors such as industries, agriculture, transport which has strong implications on social development such

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as standard of living, poverty, food security and more. Yet, one of the world's emerging economies and growing populous countries suffer from increasing energy deficits due to stagnant domestic production of crude oil (Rekha 2012). Therefore, India relies heavily on import of crude oil, particularly from West Asia- Iran, Saudi Arabia, and Iraq- which accounts for three-fourths of the total import of 75% (Rekha 2012). Oil trade agreements and diplomacy become essential to secure reliable suppliers. India has regional trade agreements with the Gulf Cooperation Countries (GCC) which witnessed rising imports of oil and gas as well as bilateral trade amounting to US\$ 45.36 billion from 2011-2012 (Embassy of India, Riyadh, 2012). Furthermore, India has also free trade agreements with the Islamic Republic of Iran which led to oil imports worth 14.689 million tonnes from 2011-2012 as well as bilateral trade worth US \$ 15,968.03 million in the same year (Roy, 2013). As far back as 1960s, the Indian state-enterprise Oil and Natural Gas Commission (ONGC) concluded agreements with the Iranian National Oil Company (INOC) for joint oil exploration in the Iranian offshore, and the construction of a refinery with guaranteed long-term supply of crude oil in Madras (present day Chennai) (Dasgupta, 1977). Hence, it has been rightly said that India's economic development is contingent upon 'politics and diplomacy' (Dasgupta, 1977: 72).

Economic development is strongly correlated with oil availability and affordability. In other words, it is susceptible to oil supply shock. The nature and source of oil supply shock can lead to both changes in terms of trade and fall in output of oil-importing country with related consequences for economic growth and development (Backus and Crucini, 2000). In comparison with other West Asian states, Iran supplies oil highly suitable for India's refineries, industries and more. However, Iran's nuclear program has not only triggered international political crisis but also imposed trade sanctions *on* and penalties for trade *with* the 'rogue' state (BBC, 2001). Thereafter, India has been under immense external pressure notably from the global power, the United States (US), to halt oil trade Iran which can stifle growth and development.

Since the end of last century, India and the US have engaged in several domains under the banner of 'Global Partnership' (Burns et al., 2006). Despite India's deepening ties with the US, India has maintained trade relations with Iran. This paper is divided into two sections- the first section is devoted to understand India- Iran Regional Trade Agreement (RTA), and the last section is devoted to explain India's unique response to mounting international pressure- the trade diplomacy of 'inclusive alignment' especially useful in troubled political climates.

## 2. Regional Trade Agreement: India- Iran Preferential Trade

States enter into RTAs for greater trade benefits from the regional trading partners (EXPORT-IMPORT BANK OF INDIA, 2007). The conventional logic behind RTAs is 'reciprocal exchanges of concessions on trade barriers...improvements in market access from which all parties to the negotiation will benefit' (Whalley, 1998: 71). States engage RTAs when 'chances of success are seen as high because the number of countries is small, or there has been a prior history of frustration with negotiating failures at the multilateral level' (Whalley, 1998: 71). Furthermore, states enter into RTAs either through membership in a regional trade bloc or through bilateral negotiations.

Under the World Trade Organisation's list of notified Regional Trade Agreements (RTAs), India and Iran are signatories to the Global System of Trade Preferences among Developing Countries (GSTP) which entered into force on 19 April 1989. Hence, the India-Iran RTA is based on bilateral trade agreements. The Ministry of Commerce and Industry (Government of India) has also signed the 'Framework Agreement on Economic Cooperation between Republic of India and Gulf Cooperation Council' on 25 August 2004 while the Confederation of Indian Industries hopes that India and the GCC will sign a Free Trade Agreement (FTA) in 2013 (PTI, 2012). From the perspective of India, RTAs in West Asia, the region with '81% of the world's proven oil reserves' (OPEC, 2013), will contribute to energy security. As said earlier, India has a stagnant domestic production of crude oil (Rekha 2012). Between 2011-2012, India barely produced 1% more than the previous year so that it recorded 7,63,000 barrels per day (Merchant, 2012). With 75%- 80% of the country's total oil requirements being met through imports or RTAs,

- It assures guarantee of access
- It inflates the total trade deficit
- It encourages market competitiveness
- It initiates cooperation in other fields such as politics, security

From the perspective of the West Asian countries, India provides huge market to sell oil wherein trade is in their favour. The trade imbalance, while negative for India, is positive for them. Compared to the countries in the GCC, Iran offers better terms of trade to India. For India, oil import from Iran is crucial because of its quality and credit facility. The Iranian crude oil is a light variety quite suitable for Indian refineries while that from Saudi Arabia is heavy and a wrong substitute (Ranjan, 2013). Moreover, Iran offers a 90-day credit line as against the 30-day credit line by Saudi Arabia and other Middle Eastern countries (Ranjan, 2013). Furthermore, a curious trend is observed between India's GDP and total trade growth rate between India- Iran.

Table 1: Trends in India-Iran Bilateral Trade (figures in Million US\$)

Year	India's exports to Iran	India's imports from Iran	Total trade	Trade balance	Total trade growth rate (%)
2005-06	1187.71	4822.65	6011.36	-3633.94	44.39
2006-07	1490.99	7839.08	9330.07	-6348.09	55.20
2007-08	1943.91	10889.57	12833.48	-8945.66	37.55
2008-09	2534.01	12376.77	14910.78	-9842.76	16.19
2009-10	1853.17	11540.85	13394.02	-9687.68	-10.17

(Source: 1. Ministry of Commerce & Industry, Government of India; 2) Sujata Ashwarya Cheema (2012), India's Approach to Sanctions on Iran, <http://www.e-ir.info/2012/04/29/indias-approach-to-sanctions-on-iran/>, accessed on 13 October 2013)

From 2005-2006, India registered a GDP of 8.4 per cent (PTI, 2006) while the total trade growth rate between India- Iran was 44.39%. From 2006-2007, India's GDP grew to 8.9% (PTI, 2006) while the total trade reached 55.20%. From 2007-2008, India's GDP fell to 7% (IMF, 2010; Mani 2010) with a corresponding drop in total trade to 37.55%. From 2008-2009, the country's GDP further fell to 6% IMF, 2010; Mani 2010) and so did the total trade to 16.19%. This correlation shows that India's GDP is related to total trade growth rate with Iran. In other words, India's economic growth is dependent on trade with Iran, especially oil import from Iran. This re-iterates the importance of Iran to India as compared to other West Asian states. Between 2008-2009, India increased its oil imports from Iran to 9.5% (Press TV, 2009). In 2013, India's GDP has fallen to 4.4% and the Asian Development Bank (ADB) forecasts the economic growth for 2013-14 to 4.7 per cent (Srivats 2013). Since 2012-2013, India had to cut down overall oil imports from Iran by 21.8% between April 2012 and January 2013 (Arab News, 2013). Furthermore, the total shipment of crude oil from Iran had declined from 486,600 barrels per day (bpd) to 286,400 bpd within a year (Arab News, 2013). Thereby, Iran has slipped to the sixth place in 2013 as against the third place it held in 2012 among oil suppliers.

### 3. Understanding Inclusive Diplomacy: India's Inclusive Alignment

The Iranian nuclear crisis seems to have left no country untouched. The crisis seems to have dragged even those countries which were unconnected and far removed from it. The crisis also seems to have divided the international community into two halves- one led by the United States (US) and supported by European Union and Israel, and the other occupied by Iran. With most of the world's economies integrated with the US and utilise the US dollar as the standard currency for international exchange is, it is no wonder that most countries are heavily tilted towards the US. And yet, there are countries which have maintained links with both camps such as India, South Korea, Turkey, South Africa, Malaysia, Sri Lanka and Taiwan. In this paper, the author shall restrict the discussion to India and its diplomacy with the West Asian strategic partner for economic growth and development- Iran.

Pratap Bhanu Mehta, in his thought-provoking work *Still Under Nehru's Shadow? The Absence of Foreign Policy Frameworks in India* (2009), said that India's foreign policy was shaped by its conception of national identity. The national identity which emerged post-independence from British imperialism comprised 'the language of idealism, the support for a norm based international society and the avoidance of getting entangled in conflicts', and during the Cold War it 'made a lot of sense' (Mehta, 2009: 211). This national identity was captured by India's first Prime Minister, Jawaharlal Nehru, as 'non-alignment'. Thereafter, Mehta discussed an important observation on India's foreign policy framework, 'an absence of long term strategic thinking' (Mehta, 2009: 210). Since Nehru's conception of 'non-alignment', there has not been much change in India's diplomatic stance till today. In difficult situations created by international politics, India has applied the diplomatic stance of 'non-alignment' time and

again. When India got dragged into the Iranian nuclear crisis, it recalled the diplomatic stance of ‘non-alignment’ to avoid much entanglement at the cost of its national interests.

However, India’s diplomatic stance of ‘non-alignment’ is not exactly the same today as it was during the Nehruvian era. While the ‘non-alignment’ during the Cold War may be termed as ‘exclusive alignment’, post- Cold War it may be termed as ‘inclusive alignment’. Exclusive alignment referred to India’s unwillingness to join either the Soviet bloc or the US bloc during the Cold War. Inclusive alignment referred to India’s willingness to develop friendly relations, without any bias, with other sovereign states in the international community for the achievement of its national interests. Today, India maintains cordial relations not only with Russia but also with US. In the current crisis too, India has maintained peaceful diplomatic relations with both US and Iran. The purpose of this paper is to understand the diplomatic stance of ‘non-alignment’ with the globalization of economies. To put simply, the aim of this paper is to explain the diplomacy of ‘inclusive alignment’ as a component of the over-arching framework of ‘non-alignment’. This section is sub-divided into three sections. The following sections shall introduce the concept as well as the context of India’s inclusive alignment, and the application of inclusive alignment to Iran.

#### 4. The Concept of Inclusive Diplomacy

The concept of inclusive diplomacy is a form of ‘Non-Alignment’ diplomacy, wherein it is ‘an instrument of foreign policy evolved through continuous interaction with domestic circumstances and the external environment...to follow an independent foreign policy’ (Harshe, 1990:399). In 1954, the term ‘Non- alignment’ was first introduced by Jawaharlal Nehru (India) in Sri Lanka. Soon it was developed into a policy and a diplomatic strategy by Jawaharlal Nehru (India), Sukarno (Indonesia), Gamal Abdel Nasser (Egypt), Josip Bros Tito (Yugoslavia) and Kwame Nkrumah (Ghana). During the Cold War, non-alignment provided an innovative choice to the prevalent tendencies of states to join a superpower bloc, either the United States (US) or the Union of Soviet Socialist Republics (USSR). Non-alignment provided the alternative to ‘steer clear of power politics’ by refusing to commit to any of the ‘two mutually hostile camps led by the superpowers’ (Harshe, 1990: 399). India, as a founding member of non-alignment, could avoid being drawn into superpower rivalry and pursue its plans of modernization and development.

Yet, India’s non-alignment policy is puzzling. During the Second Five-Year Plan, India accepted USSR’s aid to build steel plants. Further, the USSR used its veto in the United Nations security Council on the Kashmir issue in favour of India. On 9 August 1971, India signed the Treaty of Peace, Friendship and Co-operation with USSR and simultaneously, it sought US’ military assistance to save itself against China in the 1962 war. The US willingly supported India to counter an expansionist Communist China and to ‘tilt India’s non-alignment towards the west’ (Harshe, 1990: 401). In an article by the Times of India, it was revealed that ‘Jawaharlal Nehru pleaded for US help against China in 1962’ (2010) which questions India’s policy and diplomatic strategy of non-alignment. Such diplomatic alliances attract views such as ‘In theory, India has always maintained the so-called equidistance between the US and the USSR, though in practice, what it has achieved is the status of a client state indebted to both the powers’ (Reviewed work in EPW, 1978).

Inclusive diplomacy begins from the above-mentioned critique of India’s non-alignment diplomacy. The manner in which non-alignment was practiced was negative alignment or an abstention from alignment with any of the super powers of the Cold War era. Negative alignment, thereby, could also be called **exclusive diplomacy** as it excluded normal diplomacy with the super powers. Thus, **in the Cold War era non-alignment seemed to be synonymous with exclusive diplomacy. Hence, any alignment was seen as an exception.**

However, complete abstention need not be the only means to achieve non-alignment. Non-alignment may also be possible by aligning with both super powers. By aligning with both super powers, one does not commit oneself to a singular bloc. Thereby, one maintained one’s neutrality. In fact, abstention of both amounts to an extreme stance while alignment to both amounts to impartial approach or the ‘middle path’. Middle path diplomacy not only enables diplomatic relations with multiple states but also provides flexibility in decision-making and bargaining. The middle path strategy can be called as **positive alignment which offsets the earlier narrow interpretation of non-alignment and its exceptions.** As **positive alignment makes it possible to establish interactions with as many states in the international system as it seems fit, it is also called inclusive diplomacy.** **Inclusive diplomacy** only reinforces non-alignment, in policy and strategy. At present, India strongly seems to be pursuing **inclusive diplomacy and therefore, a form of non-alignment diplomacy.**

With the end of Cold War and the collapse of USSR, US emerged as the unipole. In recent times, the global supremacy of the unipole is being challenged by revisionist states such as the Islamic Republic of Iran and People's Republic of China. While it is true that Post Cold War there has not been a single strong challenger such as the once USSR, there are multiple rivals to US hegemony. In this paper, the focus shall be on Iran and its accelerating nuclear programme. Given its hostility with the US, a nuclear-armed Iran is a grave threat to the unipole's security and status. Of late, US-led international politics requires states to isolate Iran so that it may tame its ambitions and adhere to the rules under Nuclear Non-Proliferation Treaty. There is explicit pressure on states to break off economic ties with Iran. This posture translates into US versus Iran alignment and the unipole has already threatened the loss of access to American banking system as punishment for states which align with Iran. India is dependent on the US and the Iran for material reasons such as civilian nuclear energy and oil respectively. India's base structure is tied to that of US and Iran. In such a scenario, India is following **inclusive diplomacy**.

## 5. The Context of Inclusive Diplomacy

The US-Iran relations have been tense from 1979. With the Iranian Revolution and the removal of Reza Shah Pahlavi, the US had cut off diplomatic ties with Iran. The Iranian nuclear crisis started in 2002 when news spread that Iran had two unreported nuclear facilities. These were the uranium enrichment facility at Natanz and a heavy water production plant at Arak. The following year the International Atomic Energy Agency (IAEA) 'discovered highly enriched uranium at one of Iran's nuclear facilities and complained that Iran had hidden parts of its nuclear program from inspectors' (European Union Center 2008:3). This triggered the suspicion that Iran might be in pursuit of a nuclear weapons program. Additionally, the construction of a new enrichment plant raised further suspicions. Iran argued that it need not notify the International Atomic Energy Agency (IAEA) of any such construction but the IAEA insisted that Iran was legally obliged to declare such intentions to build confidence regarding the peaceful nature of its nuclear activities. Thereby, the IAEA asserted that Iran must adhere to the modified Code 3.1 of the Subsidiary Arrangements General Part to Iran's Safeguards Agreement but Iran rejected the same (Albright and Stricker, 2012).

A host of sanctions have been imposed on Iran from 2006 by the United Nations and individual sovereign states. These include the United Nations Security Council Resolution 1696, 1737, 1747, 1803, 1835, 1929, 1984, and 2049. Unilateral sanctions have also been imposed against Iran by the US and European Union (EU). The Bush administration believed that a nation rich with hydro-carbons had no need for a civilian nuclear programme. It defied logic. From 2012, India and another six states mentioned earlier got dragged into the conflict between US (coercer) and Iran (target). For economic sanctions against Iran to be resolute, it must be supported and implemented by US allies, friends and partners. This means that the allies, friends and partners have to change their normal course of action to accommodate the unilateral sanctions levied by the US. In other words, the US must 'get the other actor to change its course of action, and that is why it turns to linkage politics' (Stein, 1980: 65).

Since 2005 India and US have entered into 'Global Partnership'. The US believes that **strengthening New Delhi** will bring only benefits for Asian stability and **American security** (Tellis, 2005). This implies that New Delhi India must cooperate with the US in pressurising Iran. It is through multilateral cooperation that the coerciveness of sanctions will be possible to realise. The problem is that the Indian economy is highly dependent on Iranian oil. India's economic interest will suffer if it accommodates the US' dominant strategy of complete halt of Iranian oil imports. In late March 2013, the Petroleum and Natural Gas Minister, Veerappa Moily, made it clear that India does not intend to halt oil imports from Iran. Then how did India manage to still keep its relation with the US unfractured? Through inclusive diplomacy.

## 6. India's inclusive diplomacy with the Iran

With the case of the Iranian Nuclear Crisis, India's inclusive diplomacy came to be tested. At the IAEA, India voted against Iran (The Hindu, 2009) but prior to the vote, the Indian Prime Minister (PM), Manmohan Singh, discussed India's voting preference with the Congress party president Sonia Gandhi, Finance Minister Pranab Mukherjee and External Affairs Minister S M Krishna. The PM justified his vote in favour of the US (co-sponsored) resolution at the Council on Foreign Relations (CFR), on the grounds that India does not support Iran's nuclear ambitions or its violation of the NPT (The Hindu, 2009).



In 2013, the former US Secretary of State Hillary Clinton arrived in India for a three-day visit. She agreed to India's decision of reduced Iranian imports. However, she pressed India to further cut down its oil imports from Iran to force Iran to abandon its nuclear program. As India imported 12% of crude oil from Iran, top-importers such as Mangalore Refinery and Petrochemicals Ltd (MRPL) and Essar Oil would be required to decrease their oil imports by 15%-20% (Indian Express, 2013). Therefore, MRPL intended to buy less than 100,000 barrels per day from 142,000 bpd while Essar Oil contemplated to buy 85,000 bpd from 100,000 bpd (Quinn, 2013). The US even offered to broker deals with alternative suppliers of crude oil such as Iraq and Saudi Arabia (BLOOMBERG, 2012). Such measures pacified the US.

Post-Iranian Revolution, Iran has been a member of the Non-Alignment Movement (NAM). Since then Iran has been averse to US in the belief it represents the 'Great Satan' (Black, 2008). Iran was also distant from USSR because its communist ideology was atheistic. Therefore, it was in contrast with the Shi'a Islamic state of Iran. India and Iran have reasons to cooperate

- Their affiliation to the same institution of non-alignment movement
- India has the largest population of Shi's Muslims in South Asia which has serious implications for India-Iran diplomacy
- Bilateral relations extend to the Neolithic Age

After India's voting against Iran at the IAEA under the pressure of US, the Indian government decided to increase economic and commercial engagement with Iran through joint investment in infrastructure and joint exploration of oil (PTI, 2013). The External Affairs Minister, Salman Khurshid, offered Iran's Ali Akbar Salehi to pursue joint exploration and Production Sharing Agreement in an oil block. Hence, the Iranian Oil Minister would be visiting India soon. Moreover, India announced that it would contribute to the development of the Chabahar port in Iran (Aneja, 2013). India is a willing participant in the trilateral arrangement for the development of Iran's Chabahar port with a related investment of around US\$100 million. Given the Chabahar port's strategic location, the investment will serve India's national interest. For Iran, India's cooperation particularly at the time of economic and political crisis is significant. The primary survival of Iran's economy depends on the export of oil and natural gas. As the sanctions prevent states from buying Iranian oil and natural gas, it hurts the Iranian economy directly. An additional outcome of the sanctions is the extreme devaluation of its currency. The currency lost 80% of its value in the midst of the sanctions.

India-Iran trade diplomacy has a long history. Prior to the diplomatic visits by dignitaries of India and Iran in 2013, business delegations of each country were engaged in conferences to improve bilateral trade between them. The FIEO had invited an eight-member business delegation from Iran on July 20, 2012 at New Delhi. The Iranian delegation was headed by Mr. S. Afgheh, Managing Director, Kalanaft, National Iranian Oil Company. The purpose of the meeting was to build business ties with the Indian oil and gas field services and equipment companies. The delegation showed business interest had business interest in pumps; electrical equipments, gas turbines, drilling bits, casting in different sizes, gas compressors; rigs, line pipes, valves, lab equipments and so on. Therefore, Mr. M. Pakparwar, Deputy Head of Mission, Embassy of Iran, New Delhi, believed that India, being an important trading partners of Iran, could make exports worth \$5-7 billion to cover up the trade imbalance. He suggested that both the countries should make their presence in international exhibitions in India and Iran to boost their bilateral trade. He also encouraged Indian companies to invest in Iran and use the Special Economic Zones to channel Indian exports to Iran (Federation of Indian Export Organisation, 2012).

In the face of sanctions, the Indian and Iranian governments have been trying to find methods to meet mutual expectations of interests. On March 2012, a high-level delegation of Indian officials and businessmen went to Tehran to agree on the mode of payment due to the restriction on the use of US dollars and large sums of payment pending on both sides. After the Reserve Bank of India (RBI) refused to operate the Asian Clearing Union (ACU) mechanism and under which payments were made to Iran, India continued to import oil on credit and adding on the already outstanding amount worth \$3 billion. Besides, a new set of US sanctions against Iran ended an 18-month old arrangement for payment of Iranian crude oil through Ankara-based Turkiye Halk Bankasi (Press Trust of India, 2013). Both Indian and Iranian sides agreed to use the rupee for the purpose of exchange. The rupee payment mechanism would be operationalised via the UCO Bank, Kolkata, India. The Central Bank of Iran has opened an account with UCO bank and other Indian banks to facilitate the payment as well as to buy commodities and products from India. Besides, the rupee payment mechanism would aggressively promote Indian exports to Iran to offset the

trade imbalance by oil imports. However, the rupee payment would constitute 45% of the transaction while the remaining would be paid through other modes to Iran. The Iranian Ambassador to India, Mr Seyed Mehdi Nabizadeh, said at a press conference in New Delhi that Iran was agreeable to India's method of payment-part cash and part non-cash- to settle the oil debts and trade imbalance. The non-cash exportable items would include pharmaceuticals and soymeals. According to Reuters Middle East report, India's export of soymeal to Iran increased sharply in early 2013 despite high prices of around \$585 a ton (as on April 4 2013). Thereby, India exported 142,000 tonnes of the animal feed to Iran in March 2013 as against only 40,000 tonnes in March 2012. Since the sanctions do not include food shipments, India is using soymeal as a means of payment for crude oil imports.

## 7. Conclusion

In this paper, the aim was to explain India- Iran RTA and India's current diplomacy of 'inclusive alignment' as a form of 'non-alignment' within the context of the Iranian nuclear crisis. India signed RTA with Iran because it offered a 90-day credit line and a light variety of oil suitable for Indian refineries. In comparison to others such as the GCC, Iran's terms of trade seemed advantageous. Besides, a curious trend was observed between India's GDP and total trade growth rate between India- Iran. A rising GDP was related to a growing total trade growth rate between India- Iran. At present, India's fallen GDP coincides with India's reduced oil import from Iran. The reduced import was the product of trade negotiations with the US which initially required complete halt of oil imports. The issue of reduced import reflected India's inclusive diplomacy whereby it could pacify the US as well as continue oil import from Iran. By aligning with both powers, US and Iran, India does not commit oneself to a singular bloc. Thereby, one could maintain one's neutrality and balance against the US-led sanctions against Iran and Iranian oil imports.

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