

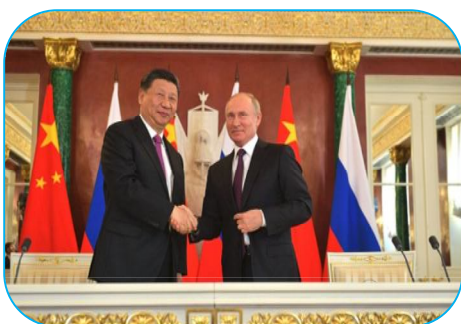


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CONVERGENCE AND DIVERGENCE IN TRADE AND ECONOMIC RELATIONSHIP BETWEEN IRAN AND CHINA

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ABSTRACT:

China, which is on a constant search for raw materials and energy resources to drive its extraordinary economic growth and the search for new markets for its products, appears to be the main beneficiary in the region. It could be argued, that the respective geopolitical situations of both Iran and China, as well as their particular requirements, capabilities, and constraints have encouraged them to seek closer collaboration in various sectors including political, energy, trade and economic and defence. This paper tries to argue that despite, seemingly close economic and trade

relations between the two countries, Iran believes that China is quite opportunistic when dealing with Iran. Iranian also worry about adoption of measures towards limiting the expansion of economic and trade relations, especially in the banking sector and specifically with regard to opening letters of credit (LC) for Iranian traders by Chinese Government. Till recent year with Iran increasingly cut off from international markets due to economic sanctions, China was in a strong position to exploit on what is left of the vulnerable economy. As the world's biggest importer of Iranian oil, China has long used Tehran's international isolation to make its business interests, which have a wider scope than just the energy sector.

KEYWORDS: *energy resources , strong position , conomic sanctions.*

INTRODUCTION

Revolutionary Iran's foreign policy was based on the principles enunciated by first Supreme Leader and founder of the Islamic Republic, Ayatollah Khomeini, best described as, "Neither East, nor West." It is not quite clear which specific countries were included in "East" or "West". While relations with the West, especially with the United States (US), were very hostile, Iran under Khomeini was less hostile towards the former

Soviet Union. At the same time, Khomeini tried to maintain normal relations with the allies of the two superpowers, such as countries in Western Europe, Japan, and China.¹ Iran also perceives, China as an important source of the investment and technology that is essential for Iran's economic development and modernisation of oil and gas industries. Faced with the US and international sanctions, Iran lacks access to foreign capital and expertise to advance its dwindling energy sector.² Iran also considers that the US supposedly monopolistic entry into the West Asia regional system may create more problems than solutions. Against this

backdrop, Iran seems to develop a quiet yet significant partnership especially with China. This evolving relationship is supposed to provide Tehran with the necessary cushion against any adventurist policy by any Western power, on the one hand, and sustain Iran's economy, wilting under international sanctions, on the other.

Iran's economy has improved in recent times, especially after the election of moderate President Hassan Rouhani, and in the aftermath of the nuclear deal between Iran and P5+1 (France, Russia, China, the USA, The UK

and Germany) on July 14, 2015. Under the agreement, formally known as the Joint Comprehensive Plan of Action (JCPOA), Iran agreed to avoid nuclear enrichment programme and allow inspectors of the International Atomic Energy Agency (IAEA) to access to its facilities in exchange of lifting of economic sanctions. As a signatory to the NPT, Iran has also agreed to avoid for the development of nuclear enrichment programme for weapons purpose, however, it is entitled to enrich nuclear technology for peaceful purposes.³ OPEC's third largest oil producer Iran, increased oil exports in April 2018 to the highest since sanctions were lifted. When the deal was implemented, Iran's economy bounced back and GDP grew 12.3 per cent, according to the Central Bank of Iran. However, after withdrawal of the USA from the agreement in May 2018 and imposition of new unilateral sanctions on Iran, GDP came down to 3.9 per cent in 2018.

During the past two decades, the Iran-China economic relationship has grown sharply. According to the International Monetary Fund (IMF) data, between 1990 and 2012, bilateral trade between Iran and China increased from US \$335 million to near about US \$37 billion (the figure may be even higher if the Chinese products shipped from the UAE to Iran are included), with China representing Iran's top oil import, largest export, and largest trade partner overall. However, Iran's bilateral trade with China declined in 2019 after US sanctions on Iran and reached to US \$23 billion.

Iran and China have become major economic partners in recent years, partly due to the withdrawal of Western companies and because of international as well as unilateral American sanctions against Iran. On June 29, 2015, Iran's Minister of Economic Affairs and Finance, Ali Tayyebnia visited China and discussed issues related to trade and economics with his Chinese counterpart, Lou Jiwei. Both leaders explored opportunities to the upgrade mutual cooperation between Iran and China in diverse economic sectors. Tayyebnia underlined that Iran-China maintain friendly relations and said that the two sides have good cooperation in various fields including trade and economy. During his visit to China, the Chinese Minister also indicated his country's willingness to enhance trade relations with Iran. China is Iran's biggest oil client, and Iran was China's fourth-largest oil supplier. China, the world's largest oil importer, took in 2.3 million tonnes, or about 541,100 barrels per day (bpd) of crude from Iran in March 2019, data from the General Administration of Customs showed, up from the 509,700 bpd imported in February 2019.⁴ The value of bilateral trade between the two countries has reached US \$47.5 billion from January to November 2014, showing 36 per cent growth, compared with the figure in 2013 which was US \$35 billion before the nuclear deal, according to China's General Administration of Customs. According to the report, China's exports in 2014 amounted to US \$22 billion which enjoyed an increase of 87 per cent compared to the previous year, which was US\$11.7 billion. Meanwhile, China's imports from Iran in 2014 grew reportedly 10 per cent and touched US \$25.5 billion from US\$23.1 billion in 2013.⁵ The value of total trade between Iran and China was around US \$52 billion in 2014. However, it dropped in 2015 due to decreasing oil prices and other reasons. China remains Iran's top trade partner.⁶ In 2019, Iran's exports, including crude oil, declined 46.6 per cent totalling US \$7.17 billion due to the US sanctions. However, Iran-China trade relations would increase further after the lifting of international sanctions. Immediately after the announcement of lifting of international sanctions on Iran, Chinese president visited Tehran in January 23-24, 2016. During president Xi Jinping visit to Iran both countries signed number of agreements related to trade and investments. Both countries agreed to enhance bilateral relations and increase trade to US \$600 billion in the next 10 years. Iran and China signed agreements on cooperation in nuclear energy and a revival of the ancient Silk Road trade route, known in China as One Belt, One Road.

Tayyebnia visited Beijing to sign the deals of the Asian Infrastructure Investment Bank (AIIB), a new international financial institution set to surpass the World Bank and Asian Development Bank (ADB). Representatives from 51 countries signed the deals that determine each member's share and the bank's initial capital. China is the largest shareholder in the bank, with a stake of 30.34 per cent. The UK, Germany, Australia and South Korea are among the founding members of the AIIB. The AIIB was formed in October 2014. The main objective of the bank is to support infrastructure construction in the Asia-Pacific region. The bank was proposed as an initiative by the Government of China and supported by 37 regional and 20 non-regional members Prospective Founding Members, 51 of which have signed the

Articles of Agreement that form the legal basis for the proposed bank. The AIIB begins functioning after the agreement enters into force, which requires 10 ratifications, holding a total number of 50 per cent of the initial subscriptions of the Authorized Capital Stock. Countries with a large GDP that did not join the bank are the US, Japan (which dominated the ADB) and Canada. The United Nations has referred the formation of AIIB as “scaling up financing for sustainable development” for the concern of Global Economic Governance.⁷

In June 2015, Iran and China have finalised a US \$2 billion deal to electrify the railway linking of Tehran to Mashhad in North-eastern Iran. Manager of the Electrification Project of Iran's Railways, Qassem Saketi said that the project will shorten the time of travel between Tehran and Mashhad to 6 hours, from the current minimum 12 hours, as the train's top speed will hit the 200 km/hour maximum. In June 2014, Iranian and Chinese officials signed a contract to electrify the railway linking Tehran to Mashhad. The project is due to be implemented by an Iranian-Chinese consortium, including the Iranian companies of MAPNA, MAPNA Ehdas and MAPNA International and the Chinese CMC and SU Power firms.⁸

Development of political and economic relations between Iran and China in recent years has been a source of many discussions about the regional and international impact of Tehran-Beijing relations. Even Iranian President Hassan Rouhani said in April 2015 that economic cooperation between Tehran and Beijing would experience an upward trend. On April 24, 2015, the Iranian President met with his Chinese counterpart, Xi Jinping, in Indonesia during the 60th anniversary of foundation of the Asian-African Conference. Both leaders discussed further expansion of ties related to trade and commerce, and various issues of mutual interest, including the nuclear negotiations (between Iran and the world powers), economic projects, enhancement of Tehran-Beijing economic relations, and regional issues like the spread of the Islamic State in Iraq and Syria.⁹

According to the Head of Iran-China Joint Chamber of Commerce, Asadollah Asgaroladi, “We are committed to increase the volume of our trade with China to US \$60 billion at the beginning of the Sixth (Five-Year) Economic Development Plan”, to start in March 2016. Private sector would play a significant role increase the trade volume between the two countries. Asgaroladi emphasises that the private sector shoulders a heavy responsibility vis-à-vis joint venture projects with China. Iran has been importing service goods for road, power plant, petrochemicals, machinery, locomotive and wagon, and China imports Iranian gas condensations, petrochemicals, minerals, iron ore and decorative stones. Iran's exports to China include pistachio, carpet, saffron and date, among others, accounting for 30 per cent of the country's entire exports.¹⁰

In April 2014, Iran launched a shuttle shipping line between its Southern port of Bandar Abbas and China's Dalian and Lianyungang ports. Managing-Director of Iran Shipping Lines Company for Transportation with Containers, Captain Hamzeh Keshavarz said that “direct transportation of goods between Bandar Abbas port and Dalian and Lianyungang ports in China and vice versa provides better services and create competitive advantages for the cargo owners”. He also added that it would also help in “decreasing the time of transit, cancelling the feeder and transshipment operations, reciprocity fees and the possibility to present lower prices, direct supply of goods from Dalian customs office and persuading cargo owners in Iranian ports to ship their commodities through the national container line”.

Both nations are also trying to explore avenues for the cooperation in the areas of science and technology at a greater level. On February 22, 2014, Houshang Rezaei Samarein, the deputy head of Industries, Mines and Trade Organisation for Foreign Trade Promotion said that during March 21, 2013-January 20, 2014, China ranked first among importers of Iranian products by purchasing US \$5.9 billion worth of goods. The country had imported US \$4.4 billion worth of products from Iran in 2015. Samarein also added that in the same period, Iran traded 25 per cent of its total exports to China.¹¹

Before the Islamic Revolution, especially during the 1960s and 70s, China did not have much to offer Iran economically. It was in the political sectors that China's help was significant for the fulfilment of the Shah's “great civilization”. Some analysts believe that during the 1965 India-Pakistan War both Iran and China shared common interests in protecting Pakistan against Indian subjugation. In an

interview in 1967, the Shah pointed out that China was a nation with nuclear weapons and more than 700 million people. As such it was a power that simply had to be recognised. However, Iran's stand changed after the Islamic Revolution of 1979.

After the Islamic Revolution, Iran-China economic relations enhanced in 1982. In July 1982, an Iranian economic delegation led by then Acting Agriculture Minister, Abbasali Zali, travelled to Beijing to discuss about economic, commercial, and technical relations between the two countries and explore opportunities for economic and trade between two countries. While economics and trade were the major focus of Zali's visit, he also justified Iran's position on the war with Iraq. In December 1982, a Chinese economic delegation also travelled to Iran. During Chinese delegation visit to Iran a deal was signed to enhanced bilateral trade from US \$200 million in 1982 to US \$500 million for 1983.¹² War and Western economic sanctions isolated Iran from its traditional trading partners, and Tehran required new partners to build up its economy after the Islamic Revolution. China grabbed the opportunity.

However, during the Iran-Iraq War, China was interested in low-profile economic cooperation with Iran. In February 1985, a Chinese economic delegation headed by the State Councillor Zhang Jing Fumadean eight-day visit to Tehran to find ways of enhancing cooperation in agriculture, fisheries, animal husbandry, irrigation, rural industries, and dam building. A vice-ministerial-level joint committee on cooperation in economics, trade, science, and technology was consequently formed to explore prospects for economic cooperation.¹³ The 17th meeting of the Iran-China Joint Economic Cooperation Commission was held in Tehran on March 18-19, 2019. The meeting was attended by Iranian Minister of Finance and Economic Affairs Farhad Dejpasand and his Chinese counterpart Liu Kun and officials and business leaders from both sides. Officials of the both sides discussed ways of boosting economic cooperation in various areas, including investment, commerce, banking, energy and agriculture.¹⁴

IRAN - CHINA TRADE RELATIONS AFTER 1988

After the Iran-Iraq War, Iran was in urgent need of international economic cooperation. China again seized the opportunity and opened its doors to trade with Iran. The end of the War allowed Iran to turn to the task of economic building, thereby starting new prospects for Iran-China cooperation. The death of Ayatollah Khomeini, on June 3, 1989, further provided the opportunity to strengthen bilateral economic cooperation.¹⁵ After the death of Khomeini, pragmatist leader, Hashemi Rafsanjani became the president of Iran. During his presidency Iran was more open for economic and trade with the international community including China.

Both countries moved forward to expand the areas of cooperation during the early 1990s, especially in the economic field – which represented the particular area of Chinese strength and Iran's growing needs. As part of the fast-expanding economic liaison, China gradually started making investments in major economic sectors in Iran, most notably in the construction of power plants, cement factories, the subway system and metro lines in Tehran. In the meantime, continuing double-digit annual growth rate of the Chinese economy and concurrent substantial rise in demand for crude oil turned it into a major oil importer, mainly from the Persian Gulf area, including Iran.¹⁶ China exceeded Japan to become Iran's major trading partner in 2006. Before Iran's 1979 Revolution, China accounted for a bit less than 1 per cent of Iran's imports. By 1991 –after the end of the Iran-Iraq War and as Iran's ambitious efforts at post-War reconstruction were getting underway – China's exports to Iran had doubled, to 2 per cent of all Iran's total imports. China's share in Iran's imports at that point was exceeded by Germany and several other European countries, Japan and even the US. By 2003, China's share of Iran's imports had grown to 8 per cent, closing in on Iran's leading European partners. By 2009, China was Iran's leading supplier of goods, with 16 per cent of Iran's total imports, about double the share of Iran's other partners, Japan, India and South Korea, and exceeded only slightly by imports from the UAE which served as trans-shipment point for goods from sundry third countries.

The volume of trade between Iran and China has increased significantly in recent years. In fact, it has multiplied since the early 1990s. While In 1994 the volume of trade stood at around US \$450 million, it rose to US \$2.3 billion in 2001 and to US \$30 billion in 2010 – as announced by China's

Embassy in Tehran. This rapid growth of trade and economic relations has been attributed to two factors. The first factor is China's sustained and substantial economic growth, turning a predominantly agrarian self-contained economy into a fast-developing industrial powerhouse in a relatively short period – dubbed by some as the “factory of the world” and a major trading partner of many developed and developing countries in the world. The second factor relates to the Iranian side of the equation, involving both economic and political factors. Persistence of political difficulties between Iran and the West in general, and the US in particular, since 1979, and more so since 2003 because of the nuclear issue, has in effect limited Iran's choices for economic cooperation. The net result of these two factors has been that in recent years, the Iranian market has been flooded with Chinese goods, including vehicles, electronic devices, clothing, toys, and even Chinese garlic and honey – traditionally produced in Iran in abundance but pushed to the margins as a result of “cheaper” Chinese imports.¹⁷

Comparative economic advantage also played a role in the growth of Iran-China trade. Chinese goods are typically considerably cheaper than European and other East Asian (primarily Japanese and Korean) goods. Chinese firms are also often relatively more willing to undertake technology transfer or complex, and perhaps, risky joint-technology development schemes; alter products in order to meet specifications of Iranian customers; and accept barter arrangements, which have become increasingly frequent as Western sanctions have closed the access of Iranian banks to the global financial system. Chinese industrial technology is inferior to Western technology perhaps, but still represents a significant leap forward for Iran's industry. While comparative advantage has been an important driver of China's emergence as Iran's leading trade partner, political considerations have also been important. Other major trading countries withdrew from Iran for political reasons. The US voluntarily withdrew from Iranian markets after 1978 as it implemented various economic sanctions in response to Iranian moves.¹⁸

Investment

After the lifting of international sanctions during Obama presidency, Iran began to attract foreign investment and revitalise its economy. Revitalising economic ties with traditional partners in Asia and Europe seems to be the main focus of this effort.¹⁹ It is difficult to provide accurate figures of Chinese investment in Iran. However, according to some sources in public domain, China has become the leading foreign investor in Iran's energy sector. Chinese investment in Iran began in 1999. The volume picked up in 2006–07, totalling about US \$18 billion in two-years. A series of huge Chinese investments totalled US \$30 billion in 2009,²⁰ dwarfing earlier foreign investment in Iranian energy sector and establishing China as Iran's main partner in further development of its energy resources. Recently in November 2014, Iran's Deputy Minister for Energy, Esmail Mahsouli stated that China had raised its quota for investment in Iran to US \$52 billion.²¹ He said that water, electricity, oil and gas projects were the major sectors picked up for investment by the Chinese. Mahsouli also said in May 2014 that Chinese investors were negotiating with Iran to finance about US \$20 billion in the country's electricity and water sector projects. Both countries have signed 15 contracts, worth US \$3 billion. Iran's US \$22 billion worth of assets lie frozen in China. The country is not able to transfer its exported oil money because of international sanctions. According to Iranian media, such as *Fars News Agency* and *Tasnim*, Iran's parliament speaker Ali Larijani said he had negotiated with Chinese officials to finance some US \$20 billion²² in development projects in Iran using frozen oil money during his last visit to Beijing in October 2013. Roughly, China invested US \$26.92 billion in Iran from 2005 to 2019.

China also invested in Tehran's metro project, which completed in sections between 2000 and 2006. The metro system would have been tough for Iran to construct without Beijing's support. Crucial Western technology (e.g., the braking system) was initially obtained by Chinese companies and used in the Tehran metro system.²³ Iran has also built a metro system in the north-eastern city of Mashhad with Chinese help. China also supported, and is still supporting, the development of Iranian infrastructure in other sectors including dam construction and port development, as well as commercial shipbuilding and sale of consumer goods. Non-energy trade and investment serve as major incentives for Beijing to

expand relations with Iran, as they provide opportunities for Chinese state-owned enterprises to win foreign contracts and sell their goods abroad, while helping provide jobs for Chinese labour.²⁴

Chinese business delegation including Vice President of China Council for the Promotion of International Trade (CCPIT) visited Iran in April 2012 for a meeting with Iranian delegations in Iran-China Chamber of Commerce and Industries (ICCCI) and discussed the strategies of growing cooperation especially in investment in both countries. ICCCI was formed in 2001 to promote trade, economic and industrial relations between Iran and China, as a non-profit organisation. Since its establishment, ICCCI has arranged 10 business delegations in China and Iran. The main objectives of ICCCI are:

- compiling and surveying statistics and other fruitful information regarding trade, industrial and economic affairs of the two countries;
- providing information and cooperating with authorised organisations and officials of the two countries in accomplishing activities which encourage trade, economic and industrial relations;
- trying to develop contacts and materialising the viewpoints of Iranian and Chinese businessmen and industrialists;
- reviewing the ground for the preparation of industrial and trade investment in both countries;
- encouraging the exchange of trade and industrial delegations and promotion of economic ties between the two countries;
- holding seminars, lectures, conferences and meetings over issues related to trade, enrichment of industrial and economic ties and transfer of technology between the two countries; and
- publishing an informative bulletin on development of economic and industrial relations, as well as techno-engineering services between Iran and China, including trade and industrial rules and regulations and resolving trade, economic and industrial disputes among Iranian and Chinese real and legal entities through arbitration of the two countries' Chambers of Commerce.²⁵

Mohammad Reza Nematzadeh, the then minister of industries, mines and trade, said "Iran has seven free trade zones and 16 special economic zones that provide Chinese investors with a unique investment opportunity." However, "Given the two countries' potentials, Iran-China trade is not satisfactory."²⁶ Nematzadeh also noted that Chinese companies could invest more in industrial, energy, gas and petrochemical sectors of Iran.

In December 2014, Iran and China signed a contract on financing the construction of Tehran-Varamin-Garmsar subway. According to the deal, Chinese companies would supply the electrical and mechanical equipment as well as wagons, locomotives and railway equipment to Iran. Iranian Deputy Minister of Roads and Urban Development Ali Nourzad underlined that a contract had been signed between the Ministry and a Chinese company to provide enough funds for the completion of the 410-km-long Tehran-Hamedan-Sanandaj railway project in Western Iran.

Recently in March 2015, China's Ambassador to Tehran, Pang Sen underlined that Beijing was determined to develop its investment relationship with Iran, especially its metal industry. Pang also said China would facilitate investment of banks in Iran's projects, including in the steel industry. Both countries are discussing details on investment in various steel projects in Sepid-Dasht, Neyriz, Qaenat, Sabzevar, Shadgan, Miyaneh and Baft. In recent years, China has emerged as the largest investor in Iran's energy and transport sectors. According to some analysts, China is said to have assured around US\$40 billion to US\$100 billion for investments in Iran.²⁷ The then Iran's Minister of Communications and Information Technology, Mahmoud Vaezi, has also emphasised strong cooperation between Iran and China in education, research, development and joint investments. In March 2015, the then Director of the Trade Promotion Organisation of Iran, Valiollah Afkhami-Rad underlined the role of joint venture companies in promoting trade and investment relations between the two countries. According to him, China could invest in various sectors in Iran, including steel, mines, transportation, agriculture, oil, gas and the petrochemical industry, and has already started funding a number of petrochemical projects. Abbas She'ri-Moqaddam, the then managing director of Iran's National Petrochemical Company (NPC)

pointed out that China would provide funds for Iran's Sabalan, Lordegan, Bushehr and Masjed Soleyman petrochemical projects. In September 2014, Iran requested China to provide US \$13 billion for those projects. Iran requires US \$31 billion to inaugurate 60 half-complete petrochemical projects. Once the projects are operational, Iran would double the country's current annual production capacity of 60 million tons.²⁸

Moreover, Iran has offered a discount to foreign investors in the Sistan and Baluchistan region. In April 2014, the Iranian President Hassan Rouhani said, "Iran's National Development Fund has envisaged a 4 per cent discount for anyone willing to invest in the Sistan and Baluchistan province and the reimbursement time will also extend for two extra years."²⁹ The Sistan-Baluchistan province, which shares its border with Pakistan, is one of the most underdeveloped, desolate, and poorest of Iran's province. The people of Sistan and Baluchistan always blame to Iranian government for discrimination and say the province is highly backward and Iranian administration do not allow their freedom and liberty. The minorities were hoping for greater cultural autonomy under the newly created Islamic Republic. In addition, the failure of the post-Revolution Iran to take cognizance of the long-held grievances and a growing sense of alienation among the ethnic minorities in the region, especially the Baluchis, has posed a major internal challenge for Tehran. To defend the territorial rights and the cultural identity of the Baluch minority in south-eastern Iran, a militant Iranian Baluchi group known as Jundullah ("Soldiers of God" or "People's Resistance Movement of Iran") emerged around 2002. The Iranian authorities have long accused Jundullah of carrying out series of attacks inside the country, including a recent suicide bombing at a mosque in the Iranian city of Chabahar on December 15, 2010, killing at least 39 people³⁰ and wounding 50 as the Shias were commemorating Ashura (the 10th day of Muharram signifying the martyrdom of Imam Hussein, the grandson of the Prophet Muhammad). The attack was supposedly meant to avenge Iran's execution of the Jundullah leader, Abdolmalek Rigi. Prior to this, Jundullah has been accused of carrying out several deadly attacks and bombings in Saravan, Zahedan and Pishin, all in the Sistan-Baluchistan province. It is also believed that the Jundullah has killed about 400 Iranian soldiers including commanders of the powerful Iranian Revolution Guard Corps (IRGC). Today, insurgency in this region is a major concern, with both Pakistani and Iranian officials accusing each other of aiding the Jundullah insurgents. Tehran blames the Pakistani Government of sheltering the group, even though Pakistan has declared Jundullah as a terrorist organisation and, on occasion, Pakistani troops have killed its members.

DIVERGENCE IN ECONOMIC RELATIONSHIP BETWEEN IRAN AND CHINA

Despite seemingly close economic and trade relations between the two countries, leading Iranian analysts believe that China's cooperation with Iran is strategically opportunistic. They are worried about the adoption of measures towards limiting the expansion of economic and trade relations, especially in the banking sector, and specifically with regard to opening letters of credit (LC) for Iranian traders by the Chinese Government. Reports in recent years on the Chinese decision to reduce the amount of crude oil imports from Iran following the adoption of the UN Security Council (UNSC) resolution, reflect the actual parameters of the situation at hand. Despite Chinese opposition of the US and EU sanctions, Beijing reduced oil import from Iran in recent years. Until nuclear deal, Iran was cut off from international markets due to economic sanctions, China was in a strong position to exploit what is left of the vulnerable economy. As the world's biggest importer of Iranian oil, China has long used Tehran's international isolation to satisfy its business interests, which have a wider scope than just the energy sector.

Recently, the Iran-China Chamber of Commerce stressed that it was receiving member complaints about the types of goods China was exporting to Iran, which "usually ... contradicted the ordered goods". Tehran's roads are full of taxi drivers who until recently owned businesses but went bankrupt because they were no longer in a position to pay for imports while competing with cheap Chinese merchandise. Unlike most Gulf countries' economies, the craft, small and medium industries play a significant role in the Iranian economy, but the flow of cheap Chinese goods resulted in strong antipathy towards China and backlash from traders and factories that are exposed to competition from

Chinese goods. As Iran's inflation and unemployment levels hike, the increasing visibility of Chinese workers at public construction sites is likely to further increase public antipathy.³¹

Moreover, China's support for the UNSC resolution led to serious political debates in Iran at different levels, including in the public media, *Majlis*, as well as other decision-making circles. The range of negative reactions included that of former Iranian Ambassador to Beijing, Javad Mansouri (2005-2009), who complained in an interview to the Iranian Labour News Agency that "China believes that the level of economic and trade exchanges between Tehran and Beijing will not go beyond the current level; therefore, they prefer to coordinate themselves with the policies of the West".³²

While the demand in the local market has been met through reliance on fast-expanding imports from China, the generally low quality of the imported goods and products has created widespread dissatisfaction among a wide spectrum of Iranian consumers – traditionally accustomed to European and American quality. What is rather quizzical in this regard is the fact that China is capable of producing goods and commodities with different levels of quality, including high quality, but the bulk of exports to Iran in recent years has been of a generally low quality. Numerous road accidents last year caused by Chinese-made Howo trucks – considered to have faulty design and poor brake system – made big news in the Iranian media.³³ The negative impressions in the Iranian public opinion of low-quality Chinese products have led to the emergence of a very negative view of the Chinese Government's policy towards Iran.³⁴ The President of ICCCI, Asgaroladi also said recently that "ICCCI receives more complains from members about Chinese companies' violation in sending goods to Iran, and usually the goods relieved in Iran contradicted the ordered goods".³⁵

CONCLUSION

As the United States grapples with the economic crisis, the consequences of two wars in Iraq and Afghanistan, and a swiftly changing global scenario, it tries to find the way to exert its influence at the global level. China, which is on a constant search for raw materials and energy resources to drive its extraordinary economic growth and the search for new markets for its products, appears to be the main beneficiary in the region. It could be argued, that the respective geopolitical situations of both Iran and China, as well as their particular requirements, capabilities, and constraints have encouraged them to seek closer collaboration in various sectors including political, energy, trade and economic and defence. China's investments in Iran have not only led to lucrative contracts for Beijing's three major national oil companies (CNPC, Sinopec, and CNOOC) but have also potentially increased Chinese energy security by developing a solid relationship with a supplier. In general, China's imports of Iranian crude have increased despite the fact that international sanctions against Iran have made payments by China more difficult, compelling the two countries to find ways around this through barter trade. China's continued economic expansion, combined with the high intensity of Chinese growth, is helping to fuel its demand for overseas energy. Chinese trade with Iran is pushed in large part by Beijing's growing need for energy imports, and its desire to secure them by participating in oil and gas exploration, development, and other "upstream" activities of its overseas energy suppliers. Certainly, from a security viewpoint, Iran's geographic position is unique - it is the only Gulf supplier that China can reach by both pipelines and sea routes. Whether or not the sanctions continue, it is clear that the Islamic Republic would take years if not decades to return to the pre-Revolution period to produce and sell 6 million barrels oil or more per day. However, if sanctions are lifted completely, in the long run Iran is going to remain important like the Persian Gulf States.

China is now entering a period of economic slowdown, which could cause political and economic uncertainty in the Asia-Pacific and drop Chinese industrial growth for years. In any case, China has also been eyeing energy resources nearer home, in order to boost the political security of the ruling party and shrink its dependency on seaborne supply, and thus on the US Navy. Beijing's new energy-based understanding with Russia is a consequence of this. In 2014, Russia and China signed a historic "mega-deal" worth US \$400 billion to provide Beijing Russian gas. However, analysts believe that China and Russia are both cynical about each other's commitment to the deal. Nevertheless, amid Western sanctions over its intervention in Ukraine, Russia seems more likely, than in the past, to accept

Chinese pricing terms; also, the overland trade in energy across the Eurasian continent is expected to increase in the future. If it can establish a market in the Far East, Russia could regain bigger room to follow a more assertive policy in the East Mediterranean even in the face of Western opposition. In the meantime, India's continued economic growth may help it in becoming a destination market for East Mediterranean energy. However, in the coming decade, because of possible growth in oil production in the Persian Gulf – in Iraq and Iran–the Asian gas market, including the subcontinent, will be a difficult one for East Mediterranean producers to enter into.

Despite seemingly close economic and trade relations between the two countries, Iran believes that China is quite opportunistic when dealing with Iran. Iranian also worry about adoption of measures towards limiting the expansion of economic and trade relations, especially in the banking sector and specifically with regard to opening letters of credit (LC) for Iranian traders by Chinese Government. Till recent year with Iran increasingly cut off from international markets due to economic sanctions, China was in a strong position to exploit on what is left of the vulnerable economy. As the world's biggest importer of Iranian oil, China has long used Tehran's international isolation to make its business interests, which have a wider scope than just the energy sector.

China is also very conscious about its economic and political relationship with the Persian Gulf Cooperation Council especially with Saudi Arabia when it deals with Iran. China is well aware that its economic and political relations with the PGCC are more vital than Iran. The bilateral trade between China and PGCC touched more than US \$117.5 billion in 2016. In the oil sector, the PGCC also gave China in the same year with more than third of its oil imports (almost 20 per cent from Beijing's top supplier Saudi Arabia), versus less than 9 per cent from Iran, according to the UN trade data.³⁶ China has to take into account Saudi Arabia's staunch opposition to Iran's nuclear programme". Iranian also believe that China's tactics towards Tehran are not only mercantilist but seek to manipulate Iran's economic isolation due to the economic sanctions. Mounting tensions between Iran and the West regarding Tehran's nuclear enrichment programme offer a substantial logistical and strategic disruption for the US, permitting China to focus on its Asia-Pacific strategy. In terms of economics exploitation, Beijing has used economic isolation against Iran very well, limiting Iran's capacity to conduct dollar-denominated oil transactions, as an excuse to compel Iran into barter deals. This has begun a floodgate of cheap, subsidised, and often sub-standard Chinese products into Iran, which is not only increasingly displacing Iranian industries but also has been unable to satisfy the consumers, especially the middle class.

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