

Examines Iran-China Trade Relations: COVID-19 Challenges, Sanctions, and Positive Potentials

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ARTICLE INFO

Article history:

Received: 27 May 2022

Revised: 10 June 2022

Accepted: 24 June 2022

Publication: June-30, 2022

DOI: [10.47742/ijbssr.v3n6p1](https://doi.org/10.47742/ijbssr.v3n6p1)



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ABSTRACT

Article in English. In the field of international relations, governments use different tools to advance their national goals and interests, some of which are tangible and some of which are immaterial. In a way, these tools mainly indirectly affect the important interests of rival governments and cause them to change their behavior. At a time when the use of force in international relations has diminished or at least governments are more cautious in relying on this tool, the impact on sensitive areas has taken another form, which is a manifestation of sanctions. Sanctions imposed on Iran in recent years over its nuclear program have affected Iran's relations with other countries and thus its interests. Following the sanctions, Iran lost ties with many countries, especially European countries, and thus accelerated Iran's growing relations with China, especially in the fields of economy and trade. Therefore, in this paper, we investigated the positive capacity for cooperation between Iran and China and suggest seven effective criteria based on the objectives of this study.

Keywords: Iran-China Trade Relations, Sanctions

Introduction

Iran-China trade relations have developed significantly since 1979 when China adopted its open-door policy and the Iranian revolution took place. Within a decade, bilateral trade had grown to about \$ 400 million [1-4]. During the Cold War, there were informal trade relations between Iran and China, which increased steadily over time. Trade reached \$1.627 billion in the 1980s and \$ 15 billion in 2007. In 1988, with the beginning of China's economic reconstruction, the Iranian market opened to Chinese industry. After establishing profitable trade relations, China invested in Tehran's metro systems, dams, fisheries, and cement factories, while Iran helped supply coal, zinc, lead, and copper. Trade between the two countries also included the production of electricity, mining, and transportation equipment, as well as weapons and consumer goods such as electronics, auto parts, and toys. Iran is full of Chinese products and cars [5]. In 2001, the trade volume between Iran and China was approximately \$ 3.3 billion, and in 2005, the trade volume between China and Iran was \$ 9.2 billion. According to Chinese statistics, from January to November 2018, the volume of bilateral trade between China and Iran was worth the US \$ 33.39 billion. Further, China's exports to Iran amounted to US \$ 13.65 billion and imports from Iran to the US \$ 19.74 billion, and continued stable growth and development to China, giving the second largest market share after Germany. China's exports to Iran have grown significantly over the past five years, with China replacing Japan as the world's second-largest exporter to Iran. Iran-china relation refers to the economic, political, and social relations between the Republic of China and Iran from the 1979- Iranian Revolution until today. These two civilizations have had a rich history of cultural, political, and economic exchanges along the Silk Road since at least 200 BC, or probably earlier. To date,

China and Iran have established friendly economic and strategic cooperation. While the United States seeks to "crush" Iran's economy, China seeks to maintain it in trade. China has helped to open the way for Iran to enter the global market (via oil), and today China remains Iran's largest trading partner. In fact, after the signing of the JCPOA in July 2015, China and Iran agreed to increase trade relations to \$600 billion in January 2016. On the occasion that Xi Jinping travels to visit Hassan Rouhani [6-10].

Relations between Iran and China

In recent years, the trade and economic relations between Iran and China have expanded significantly. Part of this trend is natural, as China, as an emerging economic power, has expanded its trade relations with many countries. There is no doubt that international trade benefits both sides. But this is only if both countries choose their trading partners and parties to the transaction without any restrictions. In addition, the hands of both parties must be open so that they can adapt the terms of the transaction to their needs as much as possible and guarantee their profit in the transaction. If, for some reason, one side has its hands tied or has no other option, the general ruling that international trade benefits both parties is not necessarily true [8]. Despite US sanctions and threats, especially after Iran's limited access to the international monetary and banking network, relations with China were one-sided to the detriment of Iran.

Challenges and transformation of US unilateral economic sanctions

The transformation of US unilateral economic sanctions into UN multilateral sanctions ushered in a new era that is considered important both politically and diplomatically and economically. The results showed that in terms of economics, the financial system is the most influential compared to other sectors. To reduce the effect of sanctions, Iran has taken measures such as



circumventing and neutralizing sanctions and, if possible, retaliation, changing trade sides, producing some goods domestically, reducing the consumption of some goods, and so on. Because China is one of Iran's largest economic partners. With the lifting of Western sanctions against Iran, many of Iran's former partners gradually withdrew and left Iran. Some went and stayed in secret with Iran, and others, who had no problem trading with Iran, raised the price of the deal with Iran under these conditions and became in a pleasant position.es [11-12].

Literature review and previous works

Following the many sanctions imposed on Iran during the years after the Islamic Revolution, economists have always wondered what effect these sanctions have on various economic variables and how much of an impact this has happened. Weak sanctions have had a less negative impact on the value of Iran's exports and imports during the period under review. But severe and widespread sanctions have had a significant negative impact on Iran's exports and imports of commercial goods. How can Iran increase trade with China by avoiding US sanctions? In this regard, several internal and external researches have been done, and we will examine a few cases.

-Shakeri, Mehrzad [13] in his research entitled "Study of political and economic relations between Iran and China from 1384 to 1394" has studied this issue. During the last decade, Iran-China relations have had significant ups and downs. Trade and energy cooperation and exchanges took place between the two countries. Finally, although these strategies have created the expectation of comprehensive cooperation between the two sides, especially Iran; China's actions in the face of sanctions against Iran and inconsistent action on Iran's nuclear program did not live up to those expectations. Iran-China relations in the 11th government continue to stagnate.

-Rezaei, Massoud; Vosoughi, Saeed [14] in his research entitled "Assessing the defense relations between Iran and China during the presidency of Hassan Rouhani" has studied this issue. The signing of the UN Security Council, which ended international concerns about Iran's nuclear program, has led to growing predictions of Iran-China defense relations. Therefore, the main question of the article is based on what are the dimensions and characteristics of the post-nuclear agreement atmosphere for Iran-China relations in the military realm? It is emphasized that despite variables such as the United States, Saudi Arabia, and Israel, as well as differences in priorities and differences in the needs of the two countries at the macro levels, military and defense relations in the country will not see much progress.

-Ekhtiari Amiri, Reza; Salehi Khanar, Mahboubeh [15] in their research entitled "Study of the causes and grounds for the expansion of Iran-China relations in the post-JCPOA era" have studied this issue. This research uses the descriptive-analytical method and applies the pragmatism paradigm in the form of a theoretical and realistic approach that argues that components such as China's loyalty to Iran in the face of tough sanctions, Iran's continued distrust of the West despite the resurgence of relations, Tehran-Beijing reciprocal economic requirements, Iran's geopolitical and geostrategic importance to China, the need to

deal with Extremism, terrorism, and fundamentalism, as well as opposition to the existing international order and US unilateralism, have led Iran and China to maintain their current level of political and economic relations and efforts to further expand bilateral cooperation.

Methodology

The main research question of this dissertation is how to evaluate Iran-China trade relations and practical measures in this regard in the wake of US sanctions? The reason this research question does not set a date for the event, for example in 20 years, is that there are inherent problems in formulating a research question that involves future research. Moreover, because qualitative data is more valuable in addressing this research question, it is difficult to extract data with definite certainty. Therefore, instead of a specific period, the research question intends to look at the broad future of trade and international relations between Iran and China, and we will examine how the United States acts on Iran as a result of the two countries' sanctions. Overall, in this paper, we investigate seven important to find the highlighted topics regarding the challenges to trade between Iran and China.

Seven influential criteria in the IRAN-China Trade

As we mentioned in the methodology section, we investigate seven important to find the highlighted topics regarding the challenges to trade between Iran and China.

China-Iran trade after new US sanctions

According to the latest statistics released by China Customs, the country's trade with Iran in October reached its lowest level in a decade, in fact During October 2019, the total trade with Iran was 1.38 billion dollars, which is 38% less than in October 2018. From January to October, exports to Iran decreased by 39% compared to the same period last year and reached 7.8 billion dollars, while imports from Iran decreased by 36% to 11.7 billion dollars. But China used to be known as the largest buyer of Iranian oil, importing more than 650,000 barrels of crude oil a day before the new US sanctions. But China's customs statistics show that this volume has dropped to an average of 140,000 barrels in recent months. After the United States withdrew from the 2015 deal in May 2018 the US president imposed minor sanctions on Iranian oil a year ago. However, the sanctions extended to a total ban on Iranian oil purchases, which are now being enforced by almost all countries.

Decreasing the trust of international sellers in the banking system

Iran's economy, since it has very wide international equations, it is certainly affected by the effects of banking sanctions, and that is said to be due to Iran's small share in trade International banking sanctions are not a blow to Iran's economy. However, this is not an accurate argument. Because a country's 26 international trade must be weighed against the GDP of the economy, in recent years Iran's international trade to GDP ratio has been very high [16].

Imposition of financial costs

One of the important effects of sanctions on banks is the increase in financing costs. An increase in facility premium rates, discount rates in foreign banks, bank fees paid in dealings with foreign banks, purchase costs from intermediaries, fees for

opening letters of credit, and finally replacement costs for bank brokers, are among the costs that the bank Sanctions must be addressed.

Import volume with China

As part of China's domestic and foreign investment reform efforts, China's Ministry of Commerce has held extensive talks on bilateral investment agreements with many countries, including Iran and Kazakhstan. However, instead of resource-based economies in Asia, Africa, and Latin America, Chinese

companies are expanding to more developed countries, such as the European Union and the United States. One of the factors considered by the Chinese for the development of the economy is the attraction of foreign capital [17-21]. It is worth mentioning that more than 55 countries currently have Consulates General in this province and the total volume of exports and imports of Guangdong Province in 2015 was equal to one trillion and 22 billion and 952 million dollars. Figure 1 shows the changes in China's GDP growth rate in It is the past years.

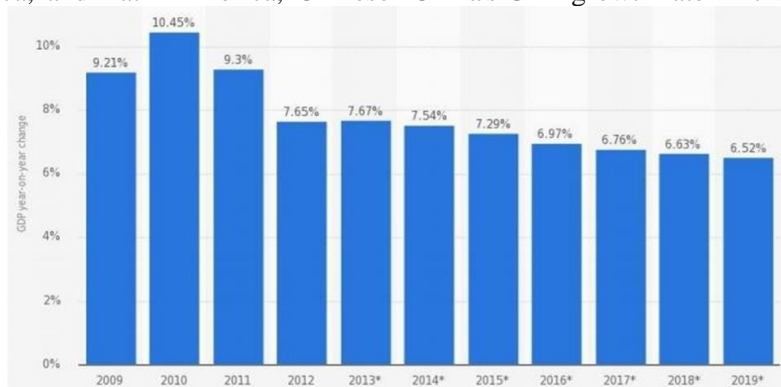


Figure 1: Changes in China's GDP growth rate (data sources: World Bank)

Impact of previous EU and US sanctions on Iran-China trade

After that, China's oil imports quickly returned to pre-2012 levels. In fact, after the lifting of sanctions, Iran-China trade relations once again reached their highest level, and China, while being the first destination to buy Iranian oil, a wide range,

exported some of its products such as industrial machinery, electrical equipment, vehicles, etc. to Iran [22-25]. Figure 2 shows that the growth of China's trade is more or less stable in all Middle Eastern countries that have not even been affected by sanctions, and China-Iran trade is not much different in this regard.

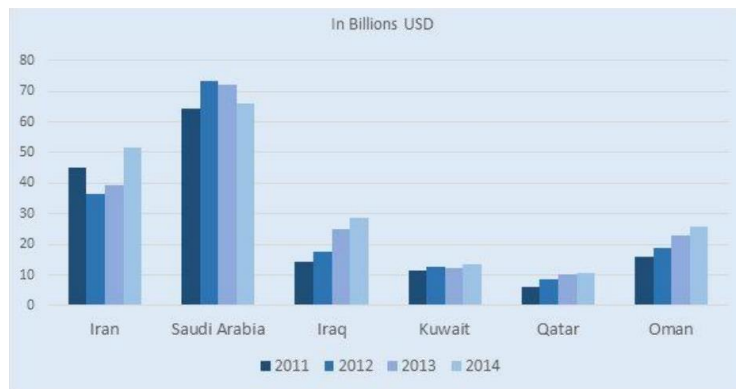


Figure 2: China-Middle East bilateral trade (Data source: World Bank)

China and the absence of Western competitors in Iran

An important feature of China-Iran energy interactions is the link between economy and politics. Iran has huge oil and gas reserves, in 2004, a 25 years' contract, conducted between Iran and China, concluded in the field of natural liquefied natural gas (LNG). A year later, a \$ 100 billion contract was signed to supply Chinese oil to the Yadavaran oil field. In January 2008, the Chinese signed a \$ 1.75 billion contract to develop the North Azadegan oil field, and just a few months later signed a \$ 5.2 billion contract with Iran to develop the South Pars gas field. In May 2009, at a joint economic conference in Tehran, the two countries signed many economic cooperation agreements worth a total of \$ 17 billion [26-30].

Examining trade trends with China, before and after the COVID-19

The most important event in 2020 without a doubt, is the outbreak of the coronavirus was suspected. A disease that has been challenging for our way of life and even our civilization and has been accompanied by suffering for all the people of the world, as well as the epidemic of this disease with geopolitical consequences. It seems that Corona is not a tragedy at all, and it has increased the knowledge of people of different nationalities, and it can be expected that its effects will gradually be seen in the trade of countries. According to Majid Reza Hariri (President of Iran-China Chamber of Commerce), there are now recognitions between the people of Iran and China that can be used to expand trade, because economic relations are stable when they are accompanied by relations between the people of the two

countries. The Corona affected foreign trade in various countries and trade between Iran and China was no exception. In the first four months of 2020, our total trade with China fell by about 41%, and in part, our exports to China exceeded 50% decreased and our imports from China increased by about four to five percent because the value of oil and 50% of our non-oil exports decreased and when sales were reduced due to declining demand.

Discussion and limitations

Although in the current context of sanctions we have a serious need to maintain, continue and deepen our trade and economic relations with China, it must be said that now the current geopolitical and geostrategic position that Iran is a privilege for China that Beijing will not easily give up. What is certain is that the current situation caused by the outbreak of Corona is temporary, and as it should be, it will have a devastating effect on Iran-China trade relations. As Majid Reza Hariri, chairman of the Iran-China Joint Chamber of Commerce made it clear that the start of the Coronavirus could not affect Tehran-Beijing trade relations in the medium and long term. The Chinese, on the other hand, plans to invest nearly \$ 2,000 billion over the next 20 years to pursue and implement their major project, the Silk Road, much of which passes through Iran. This shows that China's view of its relations with Iran, whether politically, diplomatically, economically, and even security and militarily, is a strategic and long-term view, and with some actions taken by our country in recent to confront Corona and The health of our citizens has been maintained, this routine will not change, especially since in recent months we have witnessed a joint Chinese-Russian naval exercise with Iran in the Oman Sea. This again shows how vital Iran is now to China to achieve its ambitious goals.

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